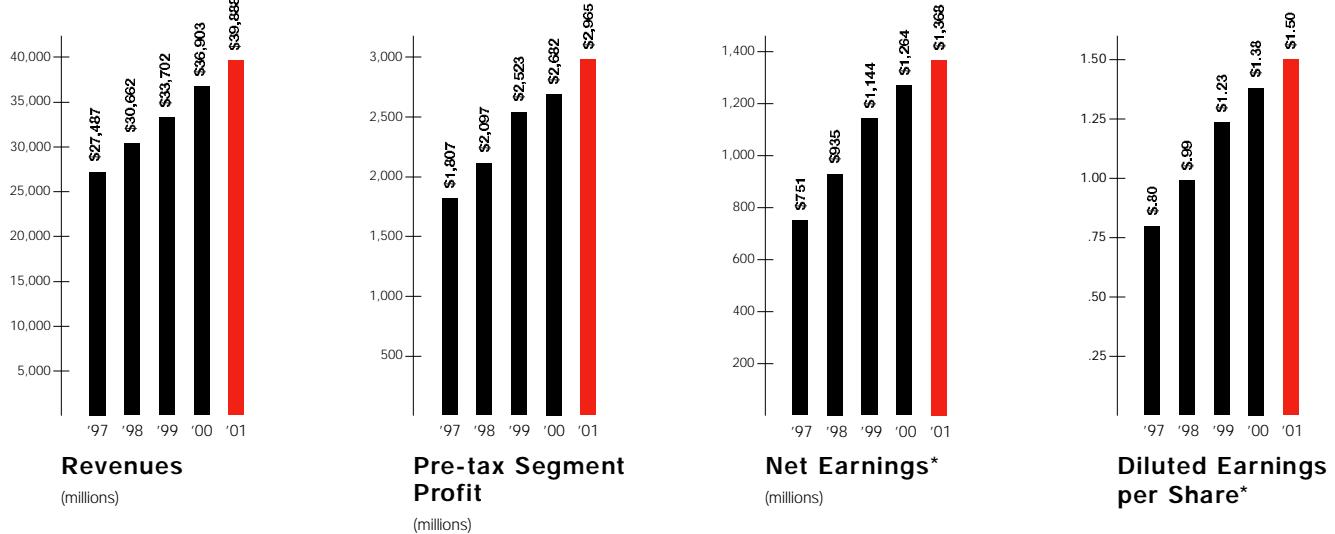




Financial Highlights 2001



| Operating Results (millions) | 2001 | 2000** | Change |
|---|-----------------|----------|--------|
| Revenues | \$39,888 | \$36,903 | 8% |
| Pre-tax segment profit | \$ 2,965 | \$ 2,682 | 11% |
| Net earnings* | \$ 1,368 | \$ 1,264 | 8% |
| Per Share Data | | | |
| Diluted earnings* | \$ 1.50 | \$ 1.38 | 9% |
| Cash dividends declared | \$.225 | \$.215 | 5% |
| At Year-end (thousands, except Number of stores) | | | |
| Common shares outstanding | 905,165 | 897,763 | |
| Retail square feet | 161,266 | 149,078 | |
| Number of stores | 1,381 | 1,307 | |

*Includes unusual items, resulting in net after-tax charges and impacts to earnings per share of \$.48 million and \$.06 per share in 2001, \$.44 million and \$.04 per share in 1999, \$.35 million and \$.04 per share in 1998 and \$.24 million and \$.02 per share in 1997.

**53-week year.



To Our Shareholders,

Throughout our history, Target Corporation has achieved success by combining innovation and discipline, marrying financial strength and thoughtful planning to operational agility, and balancing our investment in long-term growth with our ability to deliver near-term earnings. In 2001, these core principles again guided our overall strategy and performance.

- We continued to leverage our trend leadership, differentiate our merchandising, and offer compelling value throughout our assortments to satisfy our guests' needs and exceed their expectations. We intensified our focus on being in-stock and provided greater shopping convenience as we increased both our physical and on-line presence.
- To expand our market share, enhance our Target, Mervyn's and Marshall Field's brands, and strengthen our infrastructure, we strategically invested \$3.2 billion of capital during the past year in new store construction, remodeling, and more sophisticated technology and distribution capabilities.
- Consistent with our high standards of performance, we further harnessed the power within our proprietary credit card operations and successfully launched Target Visa on a national basis. This represents the first mass-scale application of smart card technology in the U.S. and we are confident it will further deepen relationships with our guests, drive merchandise sales, and increase near-term and long-term profitability.

- And importantly, we again demonstrated our ability to create value for our shareholders. Despite heightened competitive and economic challenges in fiscal 2001, our EPS before unusual items rose 12.4 percent to \$1.56 (\$1.50 including unusual items), and we generated a total return to shareholders—measured in share price appreciation and dividend income—of 18 percent, well in excess of the returns for both the S&P 500 and the S&P Retail index. As we look to 2002 and beyond, we remain confident in our strategy, and believe that Target Corporation is well-positioned to achieve profitable growth well into the future.

Innovation

Target Corporation has long embraced the concepts of innovation and newness, recognizing the importance of creating unique ways to delight our guests every time they visit our stores. At our Target Stores division, our commitment to innovation is evident in our merchandising, our store signing, our presentation and our marketing. We repeatedly show our guests that we can anticipate their lifestyle needs by interpreting current season fashions and presenting them in tightly-edited assortments that are easy to understand. Through careful development of owned brands including Xhilaration, Restore&Restyle and Archer Farms—and through partnerships with renowned designers such as Michael Graves, Mossimo

Giannulli, Sonia Kashuk, and Stephen Sprouse, we are able to offer our guests exclusive product designs and sophisticated style at exceptional value. Within the discount industry, this approach is unique to Target Stores, and it helps to reinforce our distinct brand character and fuel our continued growth.

Outside of merchandising, our commitment to innovation is perhaps less visible, but no less important in building guest loyalty and enhancing profitability. For example, in the mid 1990s, Target became the first discount retailer to offer a proprietary store-brand credit card with our launch of the Target Guest Card. And in 2001, we further differentiated Target's brand and again demonstrated bold leadership with the national introduction of our Target Visa smart card. Later this year, following the installation of thousands of chip readers in our Target stores, we expect to begin offering merchandise promotions that are tailored to individual guests' tastes. These efforts, in conjunction with successful credit card programs at both Mervyn's and Marshall Field's, strengthen our bond with our guests and contribute meaningfully to our annual revenue and earnings growth.

The Internet also presents innovative opportunities for us to enhance our relationships with our guests and drive incremental sales and operating efficiencies. In 2001, we entered into an agreement with Amazon.com that leverages Target's

merchandising and marketing expertise with Amazon's on-line dominance, superior technology and fulfillment capability. Through this partnership, our guests will be able to enjoy purchasing items from Target's differentiated assortment while using Amazon's state-of-the-art shopping features at two on-line stores. We believe this alliance positions us to capture a greater share of web-based retail commerce and will help propel our growth as the Internet's role in retailing evolves.

We are also more frequently using the Internet as a platform for improving communications and facilitating commerce with our business partners. By strategically employing existing technology and applications, we have meaningfully reduced our cost of goods and services in key areas and we have improved our in-stock levels and markdown rate through better inventory management and information flow.

As our company has developed and gained a national presence, our strategic perspective on future growth has also progressed. In recent years, we have become increasingly flexible in our site selection and store design—without compromising our Target brand or our financial disciplines. Additionally, to serve more guests, gain greater market share and generate incremental profits, we have pursued opportunities for expansion in even our most highly penetrated states such as Minnesota, Indiana and Arizona. By successfully replicating

our guest experience in more unique locations and more mature markets, we have significantly expanded our growth horizons. In 2001, through a combination of 61 total (44 net) new Target discount stores and 32 SuperTargets, we increased our net square footage by nearly 11 percent, or 12 million square feet. In 2002, we plan to accelerate this square footage growth, adding approximately 12 percent, net, to Target's existing base. This more rapid pace of growth is primarily attributable to more than 25 fully-prototype Target stores in locations that were formerly Montgomery Ward or Bradlees sites. In addition, our 2002 store opening program essentially doubles our current number of multi-level stores and includes over 30 new SuperTarget locations, representing almost 40 percent of the net increase in annual square footage.

Discipline

Just as innovation is at the heart of our ability to enhance guest loyalty and drive sales, discipline is integral to our continued growth in earnings and the creation of shareholder value. It is evident in our day-to-day operations, our capital spending decisions and in the development and implementation of our overall strategic direction. We apply disciplined rules in making site-specific investments for new stores, in determining our appropriate average annual rate of square footage growth, in expanding our financial services

business and in granting and underwriting guest credit.

Discipline is equally important in ensuring our brand consistency. It means we are uncompromising in our store housekeeping standards—including bright lights, wide, uncluttered aisles, and clean floors. It also means that we maintain high expectations for “Fast, Fun and Friendly” service—selecting and training exceptional team members, assisting our guests throughout the store and minimizing the amount of time our guests spend waiting in line to check-out. To protect our brand in existing stores, we adhere to a strict remodel schedule and routinely invest millions of dollars per store to incorporate design elements from our newest prototype.

Discipline also plays a role in our ability to satisfy our guests’ expectations for merchandise excitement and value, and for in-stock reliability.

It helps us avoid complacency and preserves our competitive advantage. Reflecting our fundamental mission as an upscale discount store, we remain vigilant in offering attractive prices, receptive to fostering new design partnerships and focused on managing inventories to meet our guests’ demand and to optimize sales and markdowns.

Finally, our disciplined culture is instrumental in our ability to generate average annual earnings per share growth of 15 percent or more over time and deliver superior returns to our shareholders. Almost a century ago, Nelson Dayton, one of this

corporation’s early leaders, said, “Thrift in a time of prosperity buys advantage in a time of adversity.” We believe this statement still has relevance for us today.

As we look to the future, we continue to challenge ourselves to be premier in every facet of our business—to be the best for our guests, our team members, our communities and our shareholders. We believe that the principles and strategies that have guided us and contributed to our success for decades will continue to guide us and fuel our growth for many years to come.

Sincerely,



Bob Ulrich, Chairman and Chief Executive Officer

Board of Directors Change

Recently, *Livio Desimone, Retired Chairman and Chief Executive Officer, 3M, retired from our board of directors. We thank Desi for his fifteen years of service and expertise, and for his contributions as Vice Chairman of the Executive Committee for the past five years.* Also during the past year, we welcomed to our board *Warren Staley, Chairman and Chief Executive Officer of Cargill, Inc.*



vision+value

Throughout Target Corporation, we are committed to offering our guests an exciting shopping experience that combines fashion newness, trend-right design and superior quality with compelling value and exceptional convenience. Through innovative merchandising, marketing and presentation, we provide our guests with more reasons to shop our stores, resulting in consistent top-line growth and market share gains. Additionally, by maintaining operational and financial discipline, we deliver substantial value to our guests and to our shareholders, even in a challenging environment.

During 2001, Target Stores remained focused on both content differentiation and assortment balance. To help us fulfill our "Expect More" promise to our guests, we continued our successful partnerships with Michael Graves and Sonia Kashuk and established new relationships with Mossimo, Waverly and Eddie Bauer. In addition, we introduced new brands including Tupperware, Levalor and Carter's Baby Tykes. Equally important, we fulfilled our "Pay Less" commitment by refining our mix of good, better and best products within key merchandise areas and sharpening our opening price points throughout the store. In 2002, we will continue to execute our fundamental strategy, remaining competitive in

our pricing and differentiated in our merchandising. New brand introductions are expected to include Woolrich in textiles, Armetale in home décor, Stride Rite in shoes and Physical Science in boys' and young men's apparel.

Mervyn's and Marshall Field's are also keenly focused on offering fashion newness and value within their respective middle-market and traditional department store formats. In 2001, we increased the visibility of up-trending brands and categories at Mervyn's, expanded our presence in nationally-branded apparel and intensified our key item focus throughout the store. At Field's, we completed the conversion of our Dayton's and Hudson's stores to Marshall Field's, leveraging the strength of this well-known brand name. We also revitalized our trend and seasonal merchandise, and rebalanced our assortment for price and quality. In 2002, we plan to continue pursuing these and other initiatives that increase guest traffic and drive higher sales and profits.

In this increasingly competitive environment, we believe that our focus on fashion and innovation in tandem with our commitment to value and quality will continue to make us the preferred shopping destination for our guests and will generate incremental returns for our shareholders.



expansion + execution



Target Stores provides the cornerstone of growth for the corporation through investment in new discount stores and SuperTarget stores as well as through a disciplined store remodeling program. This investment underscores our commitment to protect the integrity of the Target brand by delivering excitement to our guests and by ensuring uniformity throughout the chain. Over the past five years, we have increased the net square footage of this division by more than 50 percent, while enhancing our already high standards of financial performance. We expect this division to drive our growth for many more years to come.

During 2001, we continued our store expansion, producing a net increase in square footage of about 11 percent for the full year. New discount store locations accounted for slightly more than half of

this growth and included the opening of our first store in Maine, our 47th state, as well as substantial buildbacks in New York, Los Angeles and Phoenix. In 2002, we expect to increase net square footage by approximately 12 percent, as we open most of the 35 sites acquired from Montgomery Ward and 75 to 85 other locations. Beyond 2002, we expect our annual rate of square footage growth to return to an average of 8 to 10 percent, in line with historical levels.

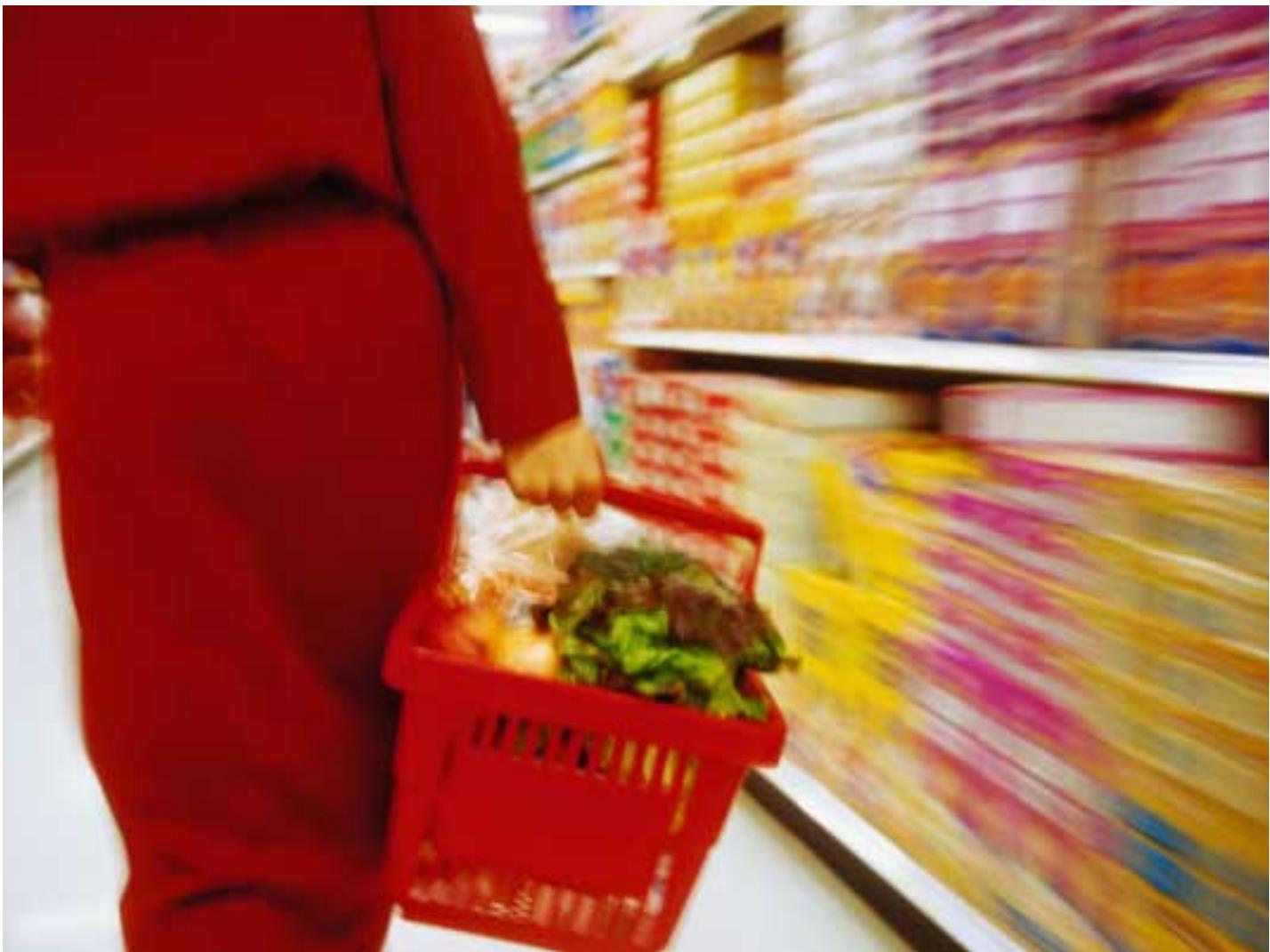
SuperTarget continues to be an important component of Target's expansion strategy, with its store count more than doubling to 62 stores during 2001. To maintain our guests' strong acceptance of this format, we continue to focus on delivering unsurpassed freshness, quality and value in produce and other perishables.

and to ensure that every facet of our grocery assortment is as differentiated as our general merchandise. Additionally, we are improving SuperTarget's productivity by leveraging existing resources and systems, and streamlining operations in areas that do not affect guest service. Of Target's expected net square footage growth in 2002, nearly 5 million square feet, or 40 percent, will be attributable to additional SuperTarget locations.

For forty years, Target Stores has delivered consistent and profitable new store growth, demonstrating the strength and sustainability of our strategy. We believe these decades of success validate our innovative and disciplined approach to growth and provide a foundation for further expansion in the foreseeable future.



power+performance



Target Financial Services strategically supports our objectives to deepen relationships with our guests, drive sales and increase profitability in each of our three retail segments. We achieve these goals through both innovative and disciplined growth, adding new services such as the Target Visa smart card, and continuing to expand existing businesses such as gift cards, proprietary store brand credit cards and other financial services.

During 2001, we began our national roll-out of the Target Visa card by upgrading selected Target Guest Card holders and accepting new applications in our Target stores and on our website. By year-end, we had more than two million active cards and had exceeded \$1 billion in Target Visa receivables, reflecting our guests' strong favorable

response to the card's broad utility, enhanced loyalty and rewards features, and the powerful potential of the smart chip technology. We are excited about the opportunities presented by this first mass-scale application for smart chip cards in the U.S. and believe the Target Visa will support our financial services objectives and contribute its own profitable growth in 2002 and beyond.

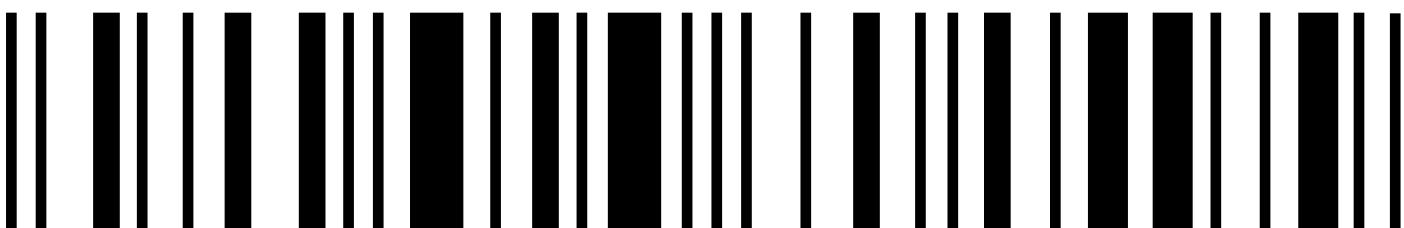
We also continue to invest in our proprietary credit card programs, gift cards and our E*TRADE zone strategy, reflecting our commitment to offer unique financial services that strengthen our guest and community relationships. In 2001, we continued to reinforce and encourage our guests' use of our proprietary store-brand credit cards at Target, Mervyn's and Marshall Field's and we improved

the functionality, design and in-store visibility of gift cards at all three divisions. Going forward, we are committed to further strengthening relationships with our guests by providing them with powerful financial services capabilities, and as a component of this strategy, we are continuing to evaluate opportunities for future growth.

By leveraging over a century of experience and knowledge, we substantially increased our credit card profitability in 2001, despite a challenging environment. We believe this proven record of performance and the powerful array of financial services we offer our guests position us to deliver significant growth in revenues and profits and to create substantial value for our shareholders for many years to come.



inventory+intelligence



Target's supply chain is among the best in the retail industry, but our goal is to make it truly world-class. Our current initiatives are designed to shorten inventory lead times, reduce costs and deliver more consistent in-stock levels, resulting in a superior level of service to our guests and improved financial performance for the corporation. During 2001, we made substantial progress toward these objectives and we achieved the highest level of in-stocks in our history. Going forward, we are continuing to pursue a number of programs that support our ultimate vision of world-class performance, including the development and implementation of new processes, the investment in physical capacity and technology, and the strengthening of our partnerships with our vendors.

In order to ensure that the most-wanted items in our stores are always

available for our guests, we have established a program to expedite distribution of our Top 1000 items throughout the chain, and plan to more than double the scope of this program in the coming year. We are also segmenting our assortment and revamping our merchandise flow to accommodate unique handling requirements due to rate of sale and predictability of demand. Additionally, we are actively working together with our vendors to manage our businesses efficiently and effectively. Specifically, we are engaged in joint business planning; aligning systems, measurements and rewards around common objectives; utilizing pre-distribution agreements; and piloting our Collaborative Planning, Forecasting and Replenishment program to increase our efficiency and to improve the flow and accuracy of our information and inventory.

During the past year, we opened our first import warehouse to enhance our processing of seasonal and imported merchandise, and we expect to open two additional import warehouses in 2003. We are also accelerating the pace of expansion for our regional distribution centers, planning to nearly double the number of our existing facilities by 2005. In addition, we have totally replaced our distribution information systems and plan to install a performance tracking system in 2002 that provides complete supply chain visibility from point of need to store replenishment.

These initiatives, combined with our continuing efforts to leverage our increasing capabilities and expertise across the corporation, give us confidence that we are well-positioned to attain world-class status.

capability+capacity



As the Internet continues to expand its reach and capability, Target Corporation continues to pursue e-business opportunities that enhance profitability and strengthen our relationships with our guests, our vendors and our team members.

During 2001, target.direct continued to drive substantial growth in traffic and sales, capitalizing on both increased Internet use by our guests and improve-

ments in the design, functionality and merchandising of our websites. In addition, we entered into an agreement with Amazon.com that should allow us to continue growing at a rapid pace in the future. It gives our guests access to Amazon's state-of-the-art shopping features, leverages Amazon's superior technology and fulfillment capability, and offers an additional site where guests

can purchase Target's differentiated merchandise. Overall, we believe this partnership represents a breakthrough for our guests and for Internet shopping, and positions Target Corporation to remain in a leadership role as the Internet evolves.

While we are firmly committed to deepening our relationships with guests, we are also focused on strengthening our vendor partnerships. In many of

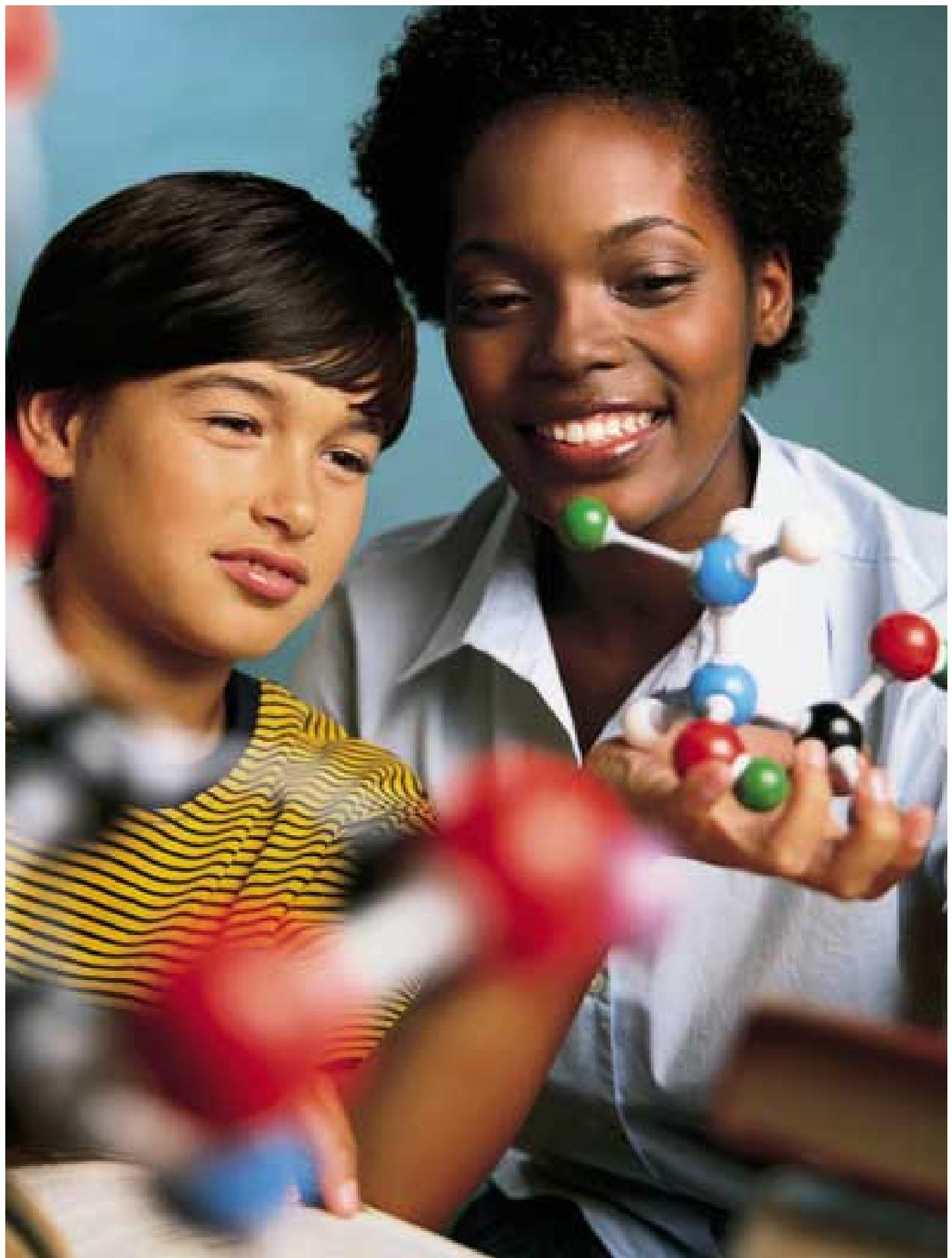


these vendor initiatives—some of which were described in Inventory+Intelligence—the Internet plays an important role. In a program called Partners On Line, for example, Internet technology allows us to streamline the flow of sales and inventory information to our vendors and allows vendors to respond more quickly and more accurately to support our needs. This initiative is expected to improve our in-

stock levels, reduce our markdowns, and increase our overall sales performance. Through e-sourcing, another application of Internet technology, we have been actively working to lower our procurement costs for goods and services and we are very pleased with the favorable results we have experienced to date.

We are embracing the Internet throughout our company and believe that our

strategic investment in this channel will help us to maximize our competitive advantage and to capitalize on opportunities for long-term profitable growth.





community+commitment

We have a proud tradition of giving back to the communities we serve, and for more than fifty years have been giving 5 percent of our federally taxable income to support these efforts. In 2001, we gave more than \$1.5 million per week to national and local non-profit organizations across the country, and in 2002, these contributions are expected to total more than \$2 million per week. With funding coming from our stores, our divisions and the corporation, these contributions are directed to strengthen the communities where we operate and to improve the quality of life for our guests and team members.

At Target, the Take Charge of Education initiative continued its strong growth and with the roll-out of the Target Visa, is

poised for more rapid growth going forward. Through the program, our guests are able to raise funds for the K-12 school of their choice as they use their Target Guest Card and Target Visa. Today, over 8 million guests and more than 114,000 schools participate in this initiative. Since 1997, Target has contributed over \$55 million to schools nationwide through the School Fundraising Program.

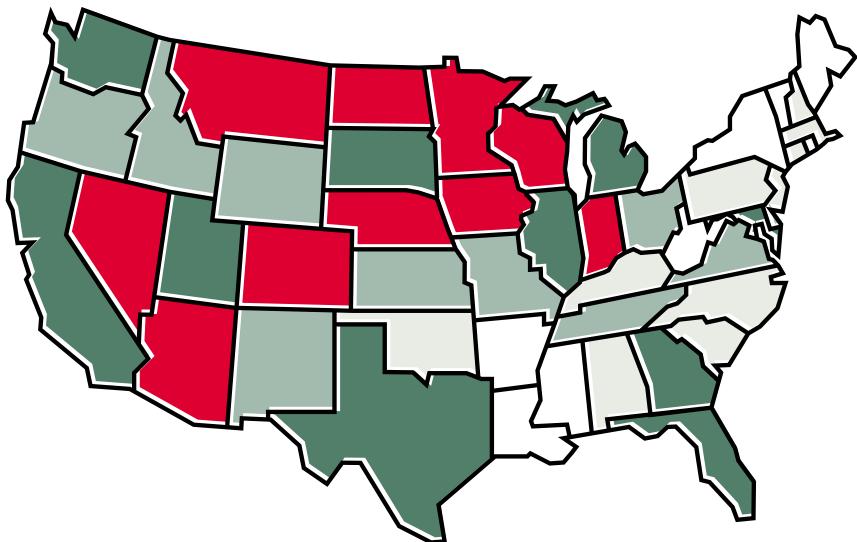
At Mervyn's, the award-winning Community Closet program has expanded its reach to over 80 cities in 14 states and has outfitted more than 5,000 men and women to help them transition from welfare to work.

At Marshall Field's, Project Imagine, which supports the arts and cultural organizations, hosted the inaugural

Marshall Field's Day of Music with the Minnesota Orchestra in 2001. This event made the arts accessible to over 11,000 attendees and was presented to the community in gratitude for its longstanding support.

Our team members share our philanthropic mission. During the past year, more than 75,000 Target Corporation team members donated over 320,000 hours of their time to more than 8,000 projects nationwide.

For decades, Target Corporation has been steadfast in our commitment to the communities we serve. We believe that by making these investments, we help build healthier communities, strengthen local economies and create value for our shareholders as well.



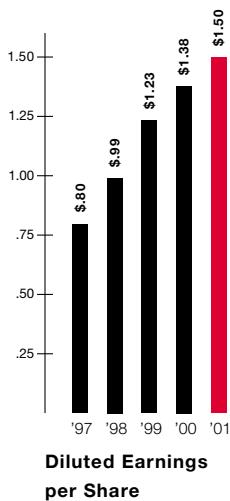
presence + potential

As Target continues to open traditional discount stores and SuperTarget stores throughout the continental United States, we steadily increase our overall penetration. By maintaining our discipline and adding square footage consistent with our historical growth rate of 8 to 10 percent annually, we expect to further expand our presence in key markets and regions and deliver profitable growth to our shareholders well into the future.

Year-end 2001 Store Count and Square Footage by State

| Density Group | Sq. Ft. per Thousand Population | No. of Stores | Retail Sq. Ft. (in thousands) | Density Group | Sq. Ft. per Thousand Population | No. of Stores | Retail Sq. Ft. (in thousands) |
|----------------------|---------------------------------|---------------|-------------------------------|----------------------|---------------------------------|---------------|-------------------------------|
| ■ Minnesota | 1,485 | 59 | 7,366 | Wyoming | 370 | 2 | 184 |
| Iowa | 811 | 19 | 2,383 | Tennessee | 363 | 19 | 2,091 |
| North Dakota | 786 | 4 | 505 | Oregon | 346 | 11 | 1,199 |
| Arizona | 744 | 34 | 3,901 | Delaware | 337 | 2 | 267 |
| Nebraska | 733 | 10 | 1,263 | Group 3 total | 404 | 141 | 16,393 |
| Montana | 701 | 6 | 638 | ■ North Carolina | 328 | 24 | 2,677 |
| Nevada | 692 | 12 | 1,424 | New Hampshire | 319 | 3 | 397 |
| Colorado | 691 | 25 | 3,023 | Kentucky | 315 | 12 | 1,280 |
| Indiana | 623 | 34 | 3,815 | New Jersey | 311 | 21 | 2,634 |
| Wisconsin | 596 | 28 | 3,218 | South Carolina | 295 | 10 | 1,197 |
| Group 1 total | 801 | 231 | 27,536 | Oklahoma | 242 | 8 | 840 |
| ■ Utah | 574 | 8 | 1,304 | Alabama | 237 | 7 | 1,064 |
| Michigan | 550 | 50 | 5,493 | Pennsylvania | 236 | 23 | 2,902 |
| California | 543 | 159 | 18,555 | Massachusetts | 228 | 11 | 1,454 |
| Texas | 539 | 95 | 11,402 | Connecticut | 190 | 5 | 648 |
| Washington | 527 | 28 | 3,147 | Group 4 total | 269 | 124 | 15,093 |
| South Dakota | 517 | 4 | 393 | □ New York | 173 | 25 | 3,294 |
| Illinois | 506 | 53 | 6,329 | Louisiana | 125 | 4 | 563 |
| Florida | 504 | 69 | 8,177 | Rhode Island | 122 | 1 | 128 |
| Maryland | 496 | 22 | 2,645 | Maine | 98 | 1 | 125 |
| Georgia | 485 | 33 | 4,034 | Arkansas | 85 | 2 | 229 |
| Group 2 total | 527 | 521 | 61,479 | Mississippi | 83 | 2 | 239 |
| ■ Kansas | 475 | 10 | 1,285 | West Virginia | 68 | 1 | 124 |
| New Mexico | 473 | 8 | 871 | Vermont | 0 | 0 | 0 |
| Virginia | 442 | 26 | 3,157 | Group 5 total | 139 | 36 | 4,702 |
| Missouri | 416 | 20 | 2,346 | | | | |
| Idaho | 407 | 5 | 536 | | | | |
| Ohio | 391 | 38 | 4,457 | | | | |
| | | | | Total | 445 | 1,053 | 125,203 |

analysis of operations



Earnings

Our net earnings were \$1,368 million in 2001, compared with \$1,264 million in 2000 and \$1,144 million in 1999. Earnings per share were \$1.50 in 2001, \$1.38 in 2000 and \$1.23 in 1999. References to earnings per share refer to diluted earnings per share. Earnings per share, dividends per share and common shares outstanding reflect our 2000 and 1999 two-for-one share splits.

Earnings Analysis

| (millions) | 2001 | 2000 | 1999 |
|---|----------------|---------|---------|
| Net earnings before unusual items | \$1,416 | \$1,264 | \$1,188 |
| Unusual items, after tax | (42) | - | (3) |
| Net earnings before extraordinary items | 1,374 | 1,264 | 1,185 |
| Extraordinary items — debt repurchase | (6) | - | (41) |
| Net earnings | \$1,368 | \$1,264 | \$1,144 |

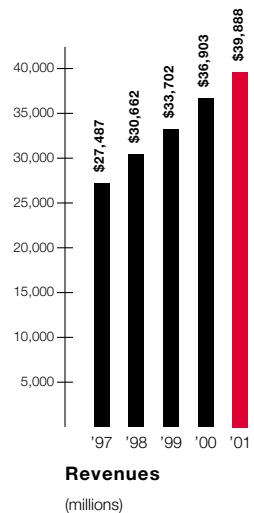
Management uses net earnings before unusual items, among other standards, to measure operating performance. It supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by accounting principles generally accepted in the United States (GAAP).

The \$42 million after-tax (\$.05 per share) unusual item in 2001 relates to the required adoption of a new accounting standard applicable to securitized accounts receivable (discussed in detail under Accounting for Accounts Receivable on page 19). The \$3 million after-tax (less than \$.01 per share) unusual item in 1999 relates to our mainframe outsourcing.

Management's discussion and analysis is based on our Consolidated Results of Operations as shown on page 24.

Revenues and Comparable-store Sales

In 2001, total revenues increased 9.7 percent and comparable-store sales increased 2.7 percent, both on a 52-week basis (since 2000 was a 53-week year, the first week is removed for comparability). Total revenues include retail sales and net credit revenues. Comparable-store sales are sales from stores open longer than one year. Revenue growth in 2001 and 2000 reflected Target's new store expansion, our overall comparable-store sales growth and growth in our credit card operations. The impact of inflation was minimal and, as a result, the overall comparable-store sales increase closely approximated real growth.



Revenues and Comparable-store Sales Growth

| (52-week basis) | 2001 | | 2000 | |
|------------------|------------------------|-------------|------------------------|----------|
| | Comparable-Store Sales | Revenues | Comparable-Store Sales | Revenues |
| Target | 13.1% | 4.1% | 10.5% | 3.4% |
| Mervyn's | (1.7) | (1.5) | 0.2 | 0.3 |
| Marshall Field's | (4.8) | (5.7) | (3.3) | (4.0) |
| Total | 9.7% | 2.7% | 7.9% | 2.4% |

Revenues per Square Foot*

| (52-week basis) | 2001 | 2000 | 1999 |
|------------------|--------------|-------|-------|
| Target | \$274 | \$268 | \$264 |
| Mervyn's | 188 | 190 | 189 |
| Marshall Field's | 194 | 210 | 220 |

*Thirteen-month average retail square feet.

Gross Margin Rate

The gross margin rate represents gross margin (sales less cost of sales) as a percent of sales. In 2001, our gross margin rate was essentially even with the prior year, benefiting from improvement at both Target and Mervyn's, offset by unfavorable performance at Marshall Field's and the mix impact of growth at Target, our lowest gross margin rate division. In 2000, our gross margin rate decreased primarily due to the mix impact of growth at Target.

Operating Expense Rate

Operating expense rate represents selling, general and administrative expense (including buying and occupancy, advertising, start-up and other expense) as a percent of sales. Operating expense excludes depreciation and amortization and expenses associated with our credit card operations, which are separately reflected on our Consolidated Results of Operations. In 2001, our operating expense rate improved, principally benefiting from the overall growth of Target, our lowest expense rate division. The operating expense rate in 2000 was essentially even with 1999.

Pre-tax Segment Profit

Pre-tax segment profit increased 11 percent in 2001 to \$2,965 million, compared with \$2,682 million in 2000 and \$2,523 million in 1999. The increase was driven by growth at Target, which delivered 86 percent of consolidated pre-tax segment profit. Mervyn's also experienced an increase in pre-tax segment profit, while Marshall Field's experienced a decline compared to last year. Target's full-year profit margin increased to 7.8 percent of revenues in 2001 from 7.6 percent in 2000. We define pre-tax segment profit as earnings before LIFO, securitization effects, interest, other expense and unusual items. A reconciliation of pre-tax segment profit to pre-tax earnings is provided in the Notes to Consolidated Financial Statements on page 35. Our segment disclosures may not be consistent with disclosures of other companies in the same line of business.

Pre-tax Segment Profit and as a Percent of Revenues

| (millions) | Pre-tax Segment Profit | | As a Percent of Revenues | |
|---|------------------------|---------|--------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Target | \$2,546 | \$2,223 | 7.8% | 7.6% |
| Mervyn's | 286 | 269 | 7.1 | 6.5 |
| Marshall Field's | 133 | 190 | 4.7 | 6.3 |
| Total | \$2,965 | \$2,682 | 7.5% | 7.4% |
| Net earnings before extraordinary items | \$1,374 | \$1,264 | | |

EBITDA

We provide the following EBITDA information derived from our financial statements because we believe it provides a meaningful aid to analysis of our performance by segment. We define segment EBITDA as pre-tax segment profit before depreciation and amortization expense. This presentation is not intended to be a substitute for GAAP required measures of profitability and cash flow. A reconciliation of pre-tax segment profit to pre-tax earnings is provided in the Notes to Consolidated Financial Statements on page 35. Our definition of EBITDA may differ from definitions used by other companies.

EBITDA and as a Percent of Revenues

| (millions) | EBITDA | | As a Percent of Revenues | |
|---|---------|---------|--------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Target | \$3,330 | \$2,883 | 10.2% | 9.8% |
| Mervyn's | 412 | 400 | 10.2 | 9.6 |
| Marshall Field's | 268 | 323 | 9.5 | 10.7 |
| Total segment EBITDA | \$4,010 | \$3,606 | 10.2% | 9.9% |
| Segment depreciation and amortization | (1,045) | (924) | | |
| Pre-tax segment profit | \$2,965 | \$2,682 | | |
| Cash flows provided by/(used for): | | | | |
| Operating activities | \$1,992 | \$2,122 | | |
| Investing activities | (3,310) | (2,692) | | |
| Financing activities | 1,461 | 706 | | |
| Net increase in cash and cash equivalents | \$ 143 | \$ 136 | | |

Interest Expense

In 2001, the total of interest expense and interest equivalent was \$491 million, \$16 million higher than in 2000. For analytical purposes, the amounts that represented payments accrued to holders of sold securitized receivables prior to August 22, 2001 (discussed in detail under Accounting for Accounts Receivable on page 19) are considered as "interest equivalent." After this date such payments constitute interest expense. In 2001, the increase in interest expense and interest equivalent was due to higher average funded balances partially offset by a considerably lower average portfolio interest rate and the impact of one less week than in 2000. The average portfolio interest rate in 2001 was 6.4 percent, compared with 7.4 percent in 2000 and 7.5 percent in 1999. In 2000, the total of interest expense and interest equivalent was \$33 million higher than 1999 due to higher average funded balances and the impact of the 53rd week in the year, partially offset by a lower average portfolio interest rate.

During 2001, we repurchased \$144 million of debt resulting in an after-tax extraordinary charge of \$6 million (\$.01 per share). The debt repurchased had a weighted-average interest rate of 9.2 percent and an average remaining life of 7 years. In 2000 and 1999, we repurchased \$35 million and \$381 million of long-term debt, respectively, resulting in after-tax extraordinary charges of \$3 million (less than \$.01 per share) and \$41 million (\$.04 per share), respectively. Also in 2000, \$371 million of puttable debt was put to us, resulting in an after-tax extraordinary gain of \$3 million (less than \$.01 per share).

Income Tax Rate

The effective income tax rate was 38.0 percent, 38.4 percent and 38.8 percent in 2001, 2000 and 1999, respectively. The tax provision includes estimates for certain unresolved matters in dispute with state and federal tax authorities.

Accounting for Accounts Receivable

On August 22, 2001, Target Receivables Corporation (TRC) sold, through the Target Credit Card Master Trust (the Trust), \$750 million of receivable-backed securities to the public. This was the fourth such transaction executed over the past several years. This method of funding represents a cost-effective means of financing our accounts receivable (as of year-end, the annualized floating interest rate applicable to the 2001 transaction was 1.9 percent). Prior to this August 22, 2001 transaction, the accounting guidance applicable to our earlier receivable-backed securities transactions was SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in sale accounting treatment. Concurrent with our August 22, 2001 issuance of receivable-backed securities, SFAS No. 140 (which replaced SFAS No. 125 in its entirety) became the accounting guidance applicable to such transactions. Application of SFAS No. 140 resulted in secured financing accounting for both this most recent transaction and for the two prior transactions that remain outstanding. This new accounting treatment results from the fact that the Trust is not a qualifying special purpose entity under SFAS No. 140. While this new accounting requires secured financing treatment of the securities issued by the Trust on our consolidated financial statements, the assets within the Trust are still considered sold to our wholly owned, bankruptcy remote subsidiary, TRC, and are not available to general creditors of the Corporation.

Beginning on August 22, 2001, our consolidated financial statements reflected the following accounting changes. First, we reflected the obligation to holders of the \$800 million (face value) of previously sold receivable-backed securities (Series 1997-1 and 1998-1, Class A Certificates) as debt of TRC, and we recorded the receivables at fair value in place of the previously recorded retained interests related to the sold securities. This resulted in an unusual pre-tax charge of \$67 million (\$.05 per share). Next, we reclassified the owned receivable-backed securities to accounts receivable at fair value. This reclassification had no impact on our Consolidated Statements of Operations because we had previously recorded permanent impairments to our portfolio of owned receivable-backed securities in amounts equal to the difference between face value and fair value of the underlying receivables.

Our Consolidated Results of Operations do not include finance charge revenues or loss provision related to the publicly held receivable-backed securities until August 22, 2001. Payments accrued to holders of our publicly held receivable-backed securities prior to August 22, 2001 are included in our pre-tax earnings reconciliation on page 35 as interest equivalent. Interest equivalent was \$27 million in 2001, \$50 million in 2000 and \$49 million in 1999.

Fourth Quarter Results

Due to the seasonal nature of our business, fourth quarter operating results typically represent a substantially larger share of total year revenues and earnings due to the inclusion of the holiday shopping season.

Fourth quarter 2001 net earnings were \$658 million, compared with \$552 million in 2000. Earnings per share were \$.72 for the quarter, compared with \$.61 in 2000. Total revenues increased 7.4 percent and 13-week comparable-store sales increased 4.6 percent. Our pre-tax segment profit increased 18 percent to \$1,272 million, driven by results at Target and Mervyn's.

Fourth Quarter Pre-tax Segment Profit and Percent Change from Prior Year

| (millions) | 2001 | 2000 | |
|---|---------|------|------------|
| Target | \$1,078 | 21% | \$ 892 10% |
| Mervyn's | 131 | 21 | 108 58 |
| Marshall Field's | 63 | (20) | 79 (34) |
| Total | \$1,272 | 18% | \$1,079 8% |
| Net earnings before extraordinary items | \$ 663 | 20% | \$ 552 6% |

Significant Accounting Policies

Revenues Revenue from retail sales is recognized at the time of sale. Commissions earned on sales generated by leased departments are included within sales. Net credit revenues are comprised of finance charges and late fees on credit sales and third-party merchant fees earned from the use of our Target Visa credit card.

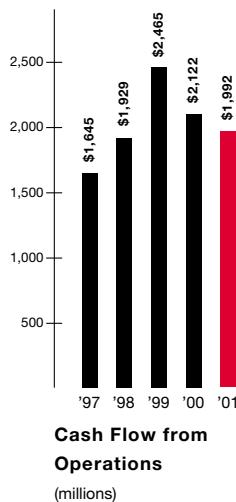
Cost of sales Cost of sales includes the cost of merchandise sold calculated utilizing the retail inventory accounting method. It includes estimates of shortage that are adjusted upon physical inventory counts in subsequent periods and estimates of amounts due from vendors for certain merchandise allowances and rebates. These estimates are consistent with our historical experience. It also includes a LIFO provision that is calculated based on inventory levels, markup rates and internally generated retail price indices.

Selling, general and administrative expense Selling, general and administrative expense includes expenses related to store operation, distribution, advertisement and administration. It also includes estimates for the present value cost of workers' compensation and general liability claims.

Credit expense Credit expense includes expenses related to operating, marketing and managing our credit card portfolio. It includes charges to adjust our accounts receivable to net realizable value. The allowance for doubtful accounts is estimated from historical portfolio performance and projections of trends.

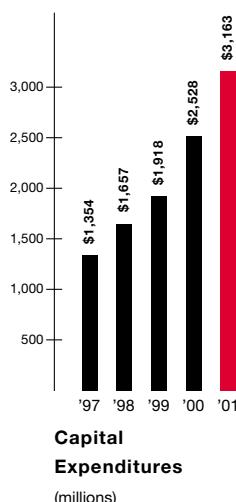
analysis of financial condition

Our financial condition remains strong. Cash flow from operations was \$1,992 million, driven by net income before depreciation expense.



Target Visa credit card in the third quarter of 2001. Average total receivables serviced increased 16 percent from last year.

During 2001, inventory levels increased \$201 million, or 4.7 percent. This growth was more than fully funded by the \$584 million increase in accounts payable over the same period.



Capital expenditures were \$3,163 million in 2001, compared with \$2,528 million in 2000. Investment in Target accounted for 92 percent of 2001 capital expenditures. Net property and equipment increased \$2,115 million. Over the past five years, Target's retail square footage has grown at a compound annual rate of approximately 10 percent, consistent with our objective to expand square footage in the range of 8 to 10 percent annually.

Approximately 71 percent of total expenditures in 2001 was for new stores, expansions and remodels.

Number of Stores

| | February 3, 2001 | Opened | Closed | February 2, 2002 |
|------------------|---------------------|--------|--------|---------------------|
| Target | 977 | 93 | 17 | 1,053 |
| Mervyn's | 266 | — | 2 | 264 |
| Marshall Field's | 64 | — | — | 64 |
| Total | 1,307 | 93 | 19 | 1,381 |

Other capital investments were for information system hardware and software, distribution capacity and other infrastructure to support store growth, primarily at Target.

Our financing strategy is to ensure liquidity and access to capital markets, to manage the amount of floating-rate debt and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our cost of borrowing.

In March 2000, our Board of Directors authorized the repurchase of \$1 billion of our common stock, in addition to the \$1 billion authorized in January 1999. Since the inception of our share repurchase program, we have repurchased a total of 40.5 million shares of our common stock at a total cost of \$1,186 million (\$29.29 per share), net of the premium from exercised and expired put options. In 2001, common stock repurchases were curtailed. Consequently, common stock repurchases did not have a material impact on our 2001 earnings and financial position.

A key to our access to liquidity and capital markets is maintaining strong investment-grade debt ratings. During 2001, our long-term debt rating was upgraded by Standard and Poor's. Further liquidity is provided by \$1.9 billion of committed lines of credit obtained through a group of 29 banks. No debt instrument contains provisions requiring acceleration of payment upon a debt rating downgrade.

Credit Ratings

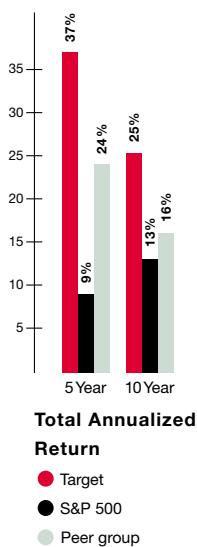
| | Moody's | Standard and Poor's | Fitch |
|------------------------------|---------|------------------------|-------|
| Long-term debt | A2 | A+ | A |
| Commercial paper | P-1 | A-1 | F1 |
| Receivable-backed securities | Aaa | AAA | N/A |

Commitments and Contingencies

At February 2, 2002, our contractual obligations include notes payable, notes and debentures of \$8,840 million (discussed in detail under Long-term Debt and Notes Payable on page 31 of the Notes to Consolidated Financial Statements) and the present value of capital and operating lease obligations of \$153 million and \$788 million, respectively (discussed in detail under Leases on page 32 of the Notes to Consolidated Financial Statements). In addition, commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately \$729 million at year-end 2001.

We are exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes the currently identified claims and litigation will not have a material adverse effect on our results of operations or our financial condition taken as a whole.

performance objectives



Shareholder Return

Our primary objective is to maximize shareholder value over time through a combination of share price appreciation and dividend income while maintaining a prudent and flexible capital structure. Our total return to shareholders (including reinvested dividends) over the last five years averaged 37 percent annually, returning about \$480 for each \$100 invested in our stock at the beginning of this period.

Measuring Value Creation

We measure value creation internally using a form of Economic Value Added (EVA), which we define as after-tax segment profit less a capital charge for all investment employed. The capital charge is an estimate of our after-tax cost of capital adjusted for the age of our stores, recognizing that mature stores inherently have higher returns than newly opened stores. We estimate that the after-tax cost of capital for our retail operations is approximately 9 percent, while our credit card operations' after-tax cost of capital is approximately 5 percent as a result of their ability to support higher debt levels. We expect to continue to generate returns in excess of these costs of capital, thereby producing EVA.

EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA improvement.

Financial Objectives

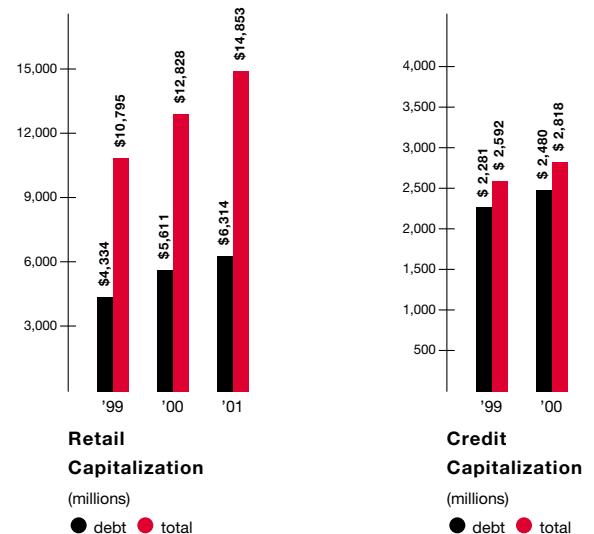
We believe that managing our business with a focus on EVA helps achieve our objective of average annual earnings per share growth of 15 percent or more over time. Our financial strategy is to produce these results with strong interest coverage and prudent levels of debt, which will allow efficient capital market access to fund our growth. Earnings per share before unusual items have grown at a compound annual rate of 21 percent over the last five years.

We ended 2001 with a retail debt ratio of 43 percent. In evaluating our debt level, we separate retail operations from credit card operations due to their inherently different financial characteristics. We view the appropriate capitalization of our credit card operations to be 88 percent debt and 12 percent equity, similar to ratios of comparable credit card businesses.

Debt Ratios and Interest Coverage

| | 2001 | 2000 | 1999 |
|-------------------|------|------|------|
| Retail | 43% | 44% | 40% |
| Credit | 88% | 88% | 88% |
| Total debt ratio | 52% | 52% | 49% |
| Interest coverage | 4.7x | 4.4x | 4.6x |

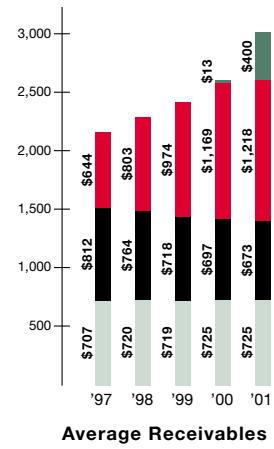
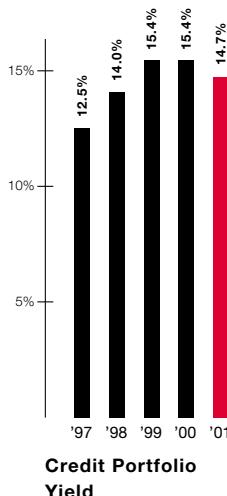
Debt ratios and interest coverage include the impact of any publicly held receivable-backed securities and off-balance sheet operating leases as if they were debt. Debt ratios represent the ratio of debt and debt equivalents to total capitalization, including debt, other long-term deferred items and equity. Interest coverage represents the ratio of pre-tax earnings before unusual items and fixed charges to fixed charges (interest expense, interest equivalent and the interest portion of rent expense).



Credit Operations

We offer credit to qualified guests in each of our business segments. These credit card programs strategically support our core retail operations and are an integral component of each business segment. In addition to our store-brand credit card programs which have been offered for many years, we began a national roll-out of the Target Visa credit card during 2001. Our credit card products support earnings growth by driving sales at our stores and through growth in credit financial performance. Credit performance, shown in the following tables, reflects each business segment's credit operation's contribution to pre-tax segment profit (which is before funding costs) on an accounts receivable serviced basis.

The revenue from serviced accounts receivable represents revenues derived from finance charges, late fees and other revenues. Merchant fees (intracompany) are fees charged to our retail operations on a basis similar to fees charged by third-party credit card issuers. These fees, which include deferred billing fees charged for carrying non-revenue-earning revolving balances, are eliminated in consolidation. Merchant fees (third-party) are fees paid by third parties that have accepted the Target Visa credit card, and are included in net credit revenues. Operations and marketing expenses include costs associated with the opening, retention and servicing of accounts.



Average Receivables Serviced
(millions)

- Target Visa ● Target Guest Card
- Mervyn's ● Marshall Field's

In 2001, pre-tax contribution from credit card operations increased 11 percent over the prior year, compared with growth in average receivables serviced of 16 percent. The increase in pre-tax contribution reflects continued growth of the portfolio, mainly at Target. The yield on our credit portfolio (pre-tax credit contribution divided by total average receivables serviced) was 14.7% in 2001, compared to 15.4% in 2000.

Credit Contribution to Segment Profit

| (millions) | 2001 | 2000 | 1999 |
|---|-------|-------|-------|
| Revenues: | | | |
| Finance charges, late fees and other revenues | \$779 | \$653 | \$609 |
| Merchant fees | | | |
| Intracompany | 102 | 99 | 90 |
| Third-party | 18 | 1 | – |
| Total revenues | 899 | 753 | 699 |
| Expenses: | | | |
| Bad debt | 230 | 148 | 147 |
| Operations and marketing | 224 | 205 | 182 |
| Total expenses | 454 | 353 | 329 |
| Pre-tax credit contribution | \$445 | \$400 | \$370 |

Receivables Serviced

| (millions) | 2001 | 2000 | 1999 |
|--------------------------------------|---------|---------|---------|
| Target | | | |
| Guest Card | \$1,063 | \$1,325 | \$1,160 |
| Target Visa | 1,567 | 76 | – |
| Mervyn's | 706 | 735 | 753 |
| Marshall Field's | 756 | 769 | 768 |
| Total year-end receivables serviced* | \$4,092 | \$2,905 | \$2,681 |
| Past due** | 4.9% | 6.1% | 6.7% |
| Total average receivables serviced | \$3,016 | \$2,604 | \$2,411 |

*At year-end 2001, 2000 and 1999, balance includes \$1,550 million, \$800 million and \$800 million, respectively, of publicly held receivable-backed securities (discussed in detail under Accounting for Accounts Receivable on page 19).

**Balances on accounts with two or more payments past due as a percent of total outstanding is one of many measures management uses to measure portfolio performance.

Allowance for Doubtful Accounts

| (millions) | 2001 | 2000 | 1999 |
|---|--------|--------|--------|
| Allowance at beginning of year | \$ 211 | \$ 203 | \$ 203 |
| Bad debt provision | 230 | 148 | 147 |
| Net write-offs | (180) | (140) | (147) |
| Allowance at end of year | \$ 261 | \$ 211 | \$ 203 |
| As a percent of year-end receivables serviced | 6.4% | 7.3% | 7.6% |
| As a multiple of current year net write-offs | 1.5x | 1.5x | 1.4x |

Fiscal Year 2002

As we look forward into 2002, we believe that we will deliver another year of strong growth in revenues and earnings driven by increases in comparable-store sales and contributions from new store growth at Target, as well as by continued growth in contribution from our credit card operations, primarily through the Target Visa credit card. For the Corporation overall, gross margin rate and operating expense rate are expected to remain essentially even with 2001.

In 2002, we expect to reinvest \$3.3 to \$3.5 billion, mostly in new square footage for Target stores, and the distribution infrastructure and systems to support this growth. Our 2002 store opening program reflects net square footage growth of approximately 12 percent or about 95 net new stores. We expect this incremental growth to include at least 30 SuperTargets, comprising about 40 percent of the net increase in square footage. Funding sources for the growth of our business include internally generated funds and debt.

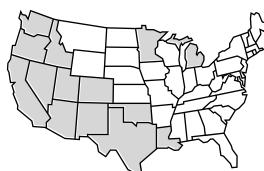
Interest expense is expected to be considerably higher than interest expense and interest equivalent in 2001 due to higher average funded balances to support expansion of Target stores and credit card receivables.

Our effective income tax rate in 2002 is expected to again approximate 38.0 percent.

Forward-looking Statements

This Annual Report, including the preceding management's discussion and analysis, contains forward-looking statements regarding our performance, liquidity and the adequacy of our capital resources. Those statements are based on our current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. We caution that the forward-looking statements are qualified by the risks and challenges posed by increased competition, shifting consumer demand, changing consumer credit markets, changing capital markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, investing in new business strategies, achieving our growth objectives, the outbreak of war and other significant national and international events, and other risks and uncertainties. As a result, while we believe that there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. You are encouraged to review Exhibit (99)C attached to our Form 10-K Report for the year ended February 2, 2002, which contains additional important factors that may cause actual results to differ materially from those projected in the forward-looking statements.

Mervyn's Store Count



| | Retail Sq. Ft. (in thousands) | No. of Stores | | Retail Sq. Ft. (in thousands) | No. of Stores |
|--------------|----------------------------------|------------------|------------|----------------------------------|------------------|
| California | 9,622 | 124 | Oregon | 553 | 7 |
| Texas | 3,347 | 42 | Louisiana | 449 | 6 |
| Washington | 1,277 | 14 | Nevada | 422 | 6 |
| Arizona | 1,203 | 15 | Oklahoma | 269 | 3 |
| Michigan | 1,165 | 15 | New Mexico | 267 | 3 |
| Minnesota | 1,160 | 9 | Idaho | 82 | 1 |
| Colorado | 855 | 11 | | | |
| Utah | 754 | 8 | | | |
| Total | 21,425 | 264 | | | |

Marshall Field's Store Count



| | Retail Sq. Ft. (in thousands) | No. of Stores | | Retail Sq. Ft. (in thousands) | No. of Stores |
|--------------|----------------------------------|------------------|--------------|----------------------------------|------------------|
| Michigan | 4,825 | 21 | North Dakota | 295 | 3 |
| Illinois | 4,690 | 17 | Indiana | 244 | 2 |
| Minnesota | 3,067 | 12 | South Dakota | 100 | 1 |
| Wisconsin | 817 | 5 | | | |
| Ohio | 600 | 3 | | | |
| Total | 14,638 | 64 | | | |

consolidated results of operations

| (millions, except per share data) | 2001 | 2000 | 1999 |
|--|-----------------|-----------------|-----------------|
| Sales | \$39,176 | \$36,362 | \$33,212 |
| Net credit revenues | 712 | 541 | 490 |
| Total revenues | 39,888 | 36,903 | 33,702 |
| Cost of sales | 27,246 | 25,295 | 23,029 |
| Selling, general and administrative expense | 8,420 | 7,900 | 7,231 |
| Credit expense | 463 | 290 | 259 |
| Depreciation and amortization | 1,079 | 940 | 854 |
| Interest expense | 464 | 425 | 393 |
| Earnings before income taxes and extraordinary items | 2,216 | 2,053 | 1,936 |
| Provision for income taxes | 842 | 789 | 751 |
| Net earnings before extraordinary items | 1,374 | 1,264 | 1,185 |
| Extraordinary charges from purchase and redemption of debt, net of tax | (6) | – | (41) |
| Net earnings | \$ 1,368 | \$ 1,264 | \$ 1,144 |
| Earnings before extraordinary items | \$ 1.52 | \$ 1.40 | \$ 1.32 |
| Extraordinary items | (.01) | – | (.04) |
| Basic earnings per share | \$ 1.52 | \$ 1.40 | \$ 1.28 |
| Earnings before extraordinary items | \$ 1.51 | \$ 1.38 | \$ 1.27 |
| Extraordinary items | (.01) | – | (.04) |
| Diluted earnings per share | \$ 1.50 | \$ 1.38 | \$ 1.23 |
| Weighted average common shares outstanding: | | | |
| Basic | 901.5 | 903.5 | 882.6 |
| Diluted | 909.8 | 913.0 | 931.3 |

See Notes to Consolidated Financial Statements throughout pages 28-36.

consolidated statements of financial position

| (millions) | February 2, 2002 | February 3, 2001 |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 499 | \$ 356 |
| Accounts receivable (net of \$261 million allowance) | 3,831 | — |
| Receivable-backed securities | — | 1,941 |
| Inventory | 4,449 | 4,248 |
| Other | 869 | 759 |
| Total current assets | 9,648 | 7,304 |
| Property and equipment | | |
| Land | 2,833 | 2,467 |
| Buildings and improvements | 10,103 | 8,596 |
| Fixtures and equipment | 4,290 | 3,848 |
| Construction-in-progress | 1,216 | 848 |
| Accumulated depreciation | (4,909) | (4,341) |
| Property and equipment, net | 13,533 | 11,418 |
| Other | 973 | 768 |
| Total assets | \$24,154 | \$19,490 |
| Liabilities and shareholders' investment | | |
| Accounts payable | \$ 4,160 | \$ 3,576 |
| Accrued liabilities | 1,566 | 1,507 |
| Income taxes payable | 423 | 361 |
| Current portion of long-term debt and notes payable | 905 | 857 |
| Total current liabilities | 7,054 | 6,301 |
| Long-term debt | 8,088 | 5,634 |
| Deferred income taxes and other | 1,152 | 1,036 |
| Shareholders' investment | | |
| Common stock | 75 | 75 |
| Additional paid-in-capital | 1,098 | 902 |
| Retained earnings | 6,687 | 5,542 |
| Total shareholders' investment | 7,860 | 6,519 |
| Total liabilities and shareholders' investment | \$24,154 | \$19,490 |

See Notes to Consolidated Financial Statements throughout pages 28-36.

consolidated statements of cash flows

| (millions) | 2001 | 2000 | 1999 |
|---|---------------|---------------|---------------|
| Operating activities | | | |
| Net earnings before extraordinary items | \$1,374 | \$1,264 | \$1,185 |
| Reconciliation to cash flow: | | | |
| Depreciation and amortization | 1,079 | 940 | 854 |
| Deferred tax provision | 49 | 1 | 75 |
| Other noncash items affecting earnings | 211 | 237 | 163 |
| Changes in operating accounts providing/(requiring) cash: | | | |
| Accounts receivable | (963) | – | – |
| Inventory | (201) | (450) | (323) |
| Other current assets | (91) | (9) | (54) |
| Other assets | (207) | 13 | (65) |
| Accounts payable | 584 | 62 | 364 |
| Accrued liabilities | 29 | (23) | 100 |
| Income taxes payable | 128 | 87 | 166 |
| Cash flow provided by operations | 1,992 | 2,122 | 2,465 |
| Investing activities | | | |
| Expenditures for property and equipment | (3,163) | (2,528) | (1,918) |
| Increase in receivable-backed securities | (174) | (217) | (184) |
| Proceeds from disposals of property and equipment | 32 | 57 | 126 |
| Other | (5) | (4) | (15) |
| Cash flow required for investing activities | (3,310) | (2,692) | (1,991) |
| Net financing (requirements)/sources | (1,318) | (570) | 474 |
| Financing activities | | | |
| (Decrease)/increase in notes payable, net | (808) | 245 | 564 |
| Additions to long-term debt | 3,250 | 2,000 | 285 |
| Reductions of long-term debt | (802) | (806) | (600) |
| Dividends paid | (203) | (190) | (195) |
| Repurchase of stock | (20) | (585) | (581) |
| Other | 44 | 42 | 18 |
| Cash flow provided by/(used for) financing activities | 1,461 | 706 | (509) |
| Net increase/(decrease) in cash and cash equivalents | 143 | 136 | (35) |
| Cash and cash equivalents at beginning of year | 356 | 220 | 255 |
| Cash and cash equivalents at end of year | \$ 499 | \$ 356 | \$ 220 |

Amounts presented herein are on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was \$666 million, \$700 million and \$575 million during 2001, 2000 and 1999, respectively. Cash paid for interest (including interest capitalized) was \$446 million, \$420 million and \$405 million during 2001, 2000 and 1999, respectively.

See Notes to Consolidated Financial Statements throughout pages 28-36.

consolidated statements of shareholders' investment

| (millions, except footnotes) | Common Stock Shares | Convertible Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Total |
|-------------------------------|---------------------|-----------------------------|--------------|----------------------------|-------------------|----------------|
| January 30, 1999 | 883.6 | \$268 | \$74 | \$ 286 | \$4,683 | \$5,311 |
| Consolidated net earnings | – | – | – | – | 1,144 | 1,144 |
| Dividends declared | – | – | – | – | (191) | (191) |
| Repurchase of stock | (18.8) | – | (1) | – | (580) | (581) |
| Issuance of stock for ESOP | 2.5 | – | – | 81 | – | 81 |
| Conversion of preferred stock | 40.6 | (268) | 3 | 289 | – | 24 |
| Stock options and awards: | | | | | | |
| Tax benefit | – | – | – | 29 | – | 29 |
| Proceeds received, net | 3.8 | – | – | 45 | – | 45 |
| January 29, 2000 | 911.7 | – | 76 | 730 | 5,056 | 5,862 |
| Consolidated net earnings | – | – | – | – | 1,264 | 1,264 |
| Dividends declared | – | – | – | – | (194) | (194) |
| Repurchase of stock | (21.2) | – | (1) | – | (584) | (585) |
| Issuance of stock for ESOP | 2.4 | – | – | 86 | – | 86 |
| Stock options and awards: | | | | | | |
| Tax benefit | – | – | – | 44 | – | 44 |
| Proceeds received, net | 4.9 | – | – | 42 | – | 42 |
| February 3, 2001 | 897.8 | – | 75 | 902 | 5,542 | 6,519 |
| Consolidated net earnings | – | – | – | – | 1,368 | 1,368 |
| Dividends declared | – | – | – | – | (203) | (203) |
| Repurchase of stock | (.5) | – | – | – | (20) | (20) |
| Issuance of stock for ESOP | 2.6 | – | – | 89 | – | 89 |
| Stock options and awards: | | | | | | |
| Tax benefit | – | – | – | 63 | – | 63 |
| Proceeds received, net | 5.3 | – | – | 44 | – | 44 |
| February 2, 2002 | 905.2 | \$ – | \$75 | \$1,098 | \$6,687 | \$7,860 |

Common Stock Authorized 6,000,000,000 shares, \$.0833 par value; 905,164,702 shares issued and outstanding at February 2, 2002; 897,763,244 shares issued and outstanding at February 3, 2001.

In January 1999, our Board of Directors authorized the repurchase of \$1 billion of our common stock. In March 2000, our Board of Directors authorized the repurchase of an additional \$1 billion of our common stock. In 2001, common stock repurchases under our program were curtailed. Our common stock repurchases are recorded net of the premium received from put options. Repurchases are made primarily in open market transactions, subject to market conditions.

Our common stock repurchase program has included the sale of put options that entitle the holder to sell shares of our common stock to us, at a specified price, if the holder exercises the option. No put options were sold during or outstanding at the end of 2001. During 2000 and 1999, we sold put options on 9.5 million shares in each year. Premiums received from the sale of put options during 2000 and 1999 were recorded in retained earnings and totaled \$29 million and \$23 million, respectively, of which \$12 million and \$7 million represent premiums received on put options outstanding at year-end, respectively.

Preferred Stock Authorized 5,000,000 shares; no shares of Series B ESOP Convertible Preferred Stock, \$.01 par value, were issued and outstanding at February 2, 2002, February 3, 2001 or January 29, 2000. In January 2000, each outstanding share of Series B ESOP Convertible Preferred Stock was converted into 120 shares of our common stock. Prior to conversion, these shares had voting rights equal to the equivalent number of common shares and were entitled to cumulative annual dividends of \$56.20.

Junior Preferred Stock Rights In 2001, we declared a distribution of shares of preferred share purchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of our common stock. Each right will entitle shareholders to buy one twelve-hundredth of a share of a new series of junior participating preferred stock at an exercise price of \$125.00, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of our common stock or announces a tender offer to acquire 30 percent or more of our common stock.

See Notes to Consolidated Financial Statements throughout pages 28-36.

notes to consolidated financial statements

Summary of Accounting Policies

Organization Target Corporation (formerly Dayton Hudson Corporation) is a general merchandise retailer, comprised of three operating segments: Target, Mervyn's and Marshall Field's. Target, an upscale discount chain located in 47 states, contributed 82 percent of our 2001 total revenues. Mervyn's, a middle-market promotional department store located in 14 states in the West, South and Midwest, contributed 10 percent of total revenues. Marshall Field's (including stores formerly named Dayton's and Hudson's), a traditional department store located in 8 states in the upper Midwest, contributed 7 percent of total revenues.

Consolidation The financial statements include the balances of the Corporation and its subsidiaries after elimination of material intercompany balances and transactions. All material subsidiaries are wholly owned.

Use of Estimates The preparation of our financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fiscal Year Our fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. Fiscal years 2001 and 1999 each consisted of 52 weeks. Fiscal year 2000 consisted of 53 weeks.

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Revenues

Revenue from retail sales is recognized at the time of sale. Commissions earned on sales generated by leased departments are included within sales and were \$37 million in 2001, \$33 million in 2000 and \$31 million in 1999. Net credit revenues are comprised of finance charges and late fees on credit sales and third-party merchant fees earned from the use of our Target Visa credit card. Net credit revenues are net of the effect of publicly held receivable-backed securities prior to August 22, 2001. Internal credit sales were \$5.6 billion, \$5.5 billion and \$5.0 billion in 2001, 2000 and 1999, respectively.

Advertising Costs

Advertising costs, included in selling, general and administrative expense, are expensed as incurred and were \$924 million, \$824 million and \$791 million for 2001, 2000 and 1999, respectively.

Mainframe Outsourcing

During 1999, we completed the transition to outsourcing our mainframe computer data center functions and expensed an additional \$5 million (less than \$.01 per share) related to the outsourcing. This expense is included in selling, general and administrative expense.

Earnings per Share

Basic EPS is net earnings divided by the average number of common shares outstanding during the period. Diluted EPS includes the incremental shares assumed issued on the exercise of stock options. References herein to earnings per share refer to Diluted EPS.

In January 2000, each outstanding Employee Stock Ownership Plan (ESOP) preferred share was converted into 120 shares of our common stock. These shares are now included within weighted average common shares outstanding. Prior to 2000, Basic EPS included an adjustment for dividend requirements on the ESOP preferred shares. Also prior to 2000, Diluted EPS assumed conversion of the ESOP preferred shares into common shares and replacement of the ESOP preferred dividends with common stock dividends.

All earnings per share, dividends per share and common shares outstanding reflect our 2000 two-for-one share split.

| (millions, except per share data) | Basic EPS | | | Diluted EPS | | |
|---|-----------|---------|---------|-------------|---------|---------|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Net earnings* | \$1,374 | \$1,264 | \$1,185 | \$1,374 | \$1,264 | \$1,185 |
| Less: ESOP net earnings adjustment | - | - | (18) | - | - | (4) |
| Adjusted net earnings* | \$1,374 | \$1,264 | \$1,167 | \$1,374 | \$1,264 | \$1,181 |
| Weighted average common shares outstanding | 901.5 | 903.5 | 882.6 | 901.5 | 903.5 | 882.6 |
| Performance shares | - | - | - | - | - | .1 |
| Stock options | - | - | - | 8.3 | 9.3 | 11.6 |
| Put warrants | - | - | - | - | .2 | .1 |
| Assumed conversion of ESOP preferred shares | - | - | - | - | - | 36.9 |
| Total common equivalent shares outstanding | 901.5 | 903.5 | 882.6 | 909.8 | 913.0 | 931.3 |
| Earnings per share* | \$ 1.52 | \$ 1.40 | \$ 1.32 | \$ 1.51 | \$ 1.38 | \$ 1.27 |

*Before extraordinary items.

Cash Equivalents

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase.

Accounts Receivable

Through our special purpose subsidiary, Target Receivables Corporation (TRC), we transfer, on an ongoing basis, substantially all of our receivables to the Target Credit Card Master Trust (the Trust) in return for certificates representing undivided interests in the Trust's assets. TRC owns the undivided interest in the Trust's assets, other than the assets used to secure the securities issued by the Trust as described below and the 2 percent of trust assets held by Retailers National Bank (RNB), a wholly owned subsidiary of the Corporation that also services the receivables. The undivided interests held by TRC and RNB and the related income and expenses were reflected in each operating segment's assets and operating results based on the origin of the credit card giving rise to the receivable. On August 22, 2001, TRC sold, through the Trust, \$750 million of receivable-backed securities to the public. This was the fourth such transaction executed over the past several years. Prior to this August 22, 2001 transaction, the accounting guidance applicable to our earlier receivable-backed securities transactions was SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in sale accounting treatment. Concurrent with our August 22, 2001 issuance of receivable-backed securities, SFAS No. 140 (which replaced SFAS No. 125 in its entirety) became the accounting guidance applicable to such transactions. Application of SFAS No. 140 resulted in secured financing accounting for both this most recent transaction and for the two prior transactions that remain outstanding. This new accounting treatment results from the fact that the Trust is not a qualifying special purpose entity under SFAS No. 140. While this new accounting requires secured financing treatment of the securities issued by the Trust on our consolidated financial statements, the assets within the Trust are still considered sold to our wholly owned, bankruptcy remote subsidiary, TRC, and are not available to general creditors of the Corporation.

Beginning on August 22, 2001, our consolidated financial statements reflected the following accounting changes. First, we reflected the obligation to holders of the \$800 million (face value) of previously sold receivable-backed securities (Series 1997-1 and 1998-1, Class A Certificates) as debt of TRC, and we recorded the receivables at fair value in place of the previously recorded retained interests related to the sold securities. This resulted in an unusual pre-tax charge of \$67 million (\$.05 per share). Next, we reclassified the owned receivable-backed securities to accounts receivable at fair value. This reclassification had no impact on our Consolidated Statements of Operations because we had previously recorded

permanent impairments to our portfolio of owned receivable-backed securities in amounts equal to the difference between face value and fair value of the underlying receivables. On August 22, 2001, the Trust's entire portfolio of receivables was reflected on our consolidated financial statements at its fair value, which was based upon the expected performance of the underlying receivables portfolio. At that point in time, fair value was equivalent in amount to face value, net of an appropriate allowance. By year-end, a normalized relationship developed between the face value of receivables and allowance for doubtful accounts through turnover of receivables within the portfolio. As a result, at February 2, 2002, our allowance for doubtful accounts is attributable to our entire receivables portfolio.

Receivable-backed Securities

Receivable-backed securities are asset-backed securities collateralized by pools of credit card receivables that we have originated and securitized. The receivable-backed securities that we held prior to August 22, 2001 represented our interest in the securitization facility through which we securitize our receivables on an ongoing basis.

The receivable-backed securities were classified as available-for-sale in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and were carried at fair value, which approximates the carrying value of the underlying receivables and therefore, no gain or loss was recognized by the Company at the time of the securitization.

Income on the receivable-backed securities was accrued based on the effective interest rate applied to their cost basis, adjusted for accrued interest and principal paydowns. The effective interest rate approximates the yield on the underlying receivables.

Our retained interests related to the publicly held securitizations in the form of interest only strips, which represented the difference between the yield on the receivable portfolio and the stated interest rate on the publicly held receivable-backed security. The retained interests were not material to the financial statements.

We monitored impairment of receivable-backed securities based on fair value. Permanent impairments were charged to earnings through credit expense in the period in which it was determined that the receivable-backed securities' carrying value was greater than their fair value.

At year-end 2000, \$800 million of securitized receivables had been sold to investors and TRC had borrowed \$100 million through the issuance of notes payable secured by receivable-backed securities not publicly held.

At year-end 2000 and 1999, underlying the receivable-backed securities were serviced receivables of \$2,905 million and \$2,681 million, respectively. The serviced receivables included receivables with two or more payments past due of \$179 million at year-end 2000

and 1999. Permanent impairment charges on the receivables underlying the receivable-backed securities portfolio were \$89 million in 2001 (prior to August 22, 2001), \$140 million in 2000 and \$147 million in 1999. Permanent impairment charges in 2001 include only those losses prior to the consolidation of the Trust on August 22, 2001.

Inventory

Inventory and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis and are stated at the lower of LIFO cost or market. The cumulative LIFO provision was \$64 million and \$57 million at year-end 2001 and 2000, respectively.

| Inventory (millions) | 2001 | 2000 |
|--------------------------------|----------------|----------------|
| Target | \$3,348 | \$3,090 |
| Mervyn's | 523 | 561 |
| Marshall Field's | 348 | 396 |
| Other | 230 | 201 |
| Total inventory | \$4,449 | \$4,248 |

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Accelerated depreciation methods are generally used for income tax purposes.

Estimated useful lives by major asset category are as follows:

| Asset | Life (in years) |
|--------------------------------|------------------------|
| Buildings and improvements | 8 – 50 |
| Fixtures and equipment | 5 – 8 |
| Computer hardware and software | 4 |

On an ongoing basis, we evaluate our long-lived assets for impairment using undiscounted cash flow analysis.

In 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," superseding SFAS No. 121 in its entirety and the accounting and reporting provisions of APB Opinion No. 30 for disposals of segments of a business. The statement retains the fundamental provisions of SFAS No. 121, clarifies guidance related to asset classification and impairment testing and incorporates guidance related to disposals of segments. As required, we will adopt this statement in the first quarter of 2002. We do not believe the adoption of this statement will have a material impact on our earnings or financial position.

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded within long-term other assets at cost less accumulated amortization. Amortization is computed using the straight-line method over estimated useful lives. Goodwill and intangible assets have estimated useful lives of three to thirty years.

In 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets," which supersedes APB Opinion No. 17, "Intangible Assets." Under the new statement, goodwill and intangible assets that have indefinite useful lives will no longer be amortized but rather reviewed at least annually for impairment. As required, we will adopt this statement in the first quarter of 2002. The adoption of this statement will reduce annual amortization expense by approximately \$10 million (\$.01 per share). At February 2, 2002 and February 3, 2001, net goodwill and intangible assets were \$250 million and \$266 million, respectively, including goodwill and intangible assets with indefinite useful lives of \$155 million and \$165 million, respectively.

Accounts Payable

Outstanding drafts included in accounts payable were \$958 million and \$600 million at year-end 2001 and 2000, respectively.

Lines of Credit

At February 2, 2002, two committed credit agreements totaling \$1.9 billion were in place through a group of 29 banks at specified rates. There were no balances outstanding at any time during 2001 or 2000 under these agreements.

Commitments and Contingencies

At February 2, 2002, our contractual obligations include notes payable, notes and debentures of \$8,840 million (discussed in detail under Long-term Debt and Notes Payable on page 31) and the present value of capital and operating lease obligations of \$153 million and \$788 million, respectively (discussed in detail under Leases on page 32). In addition, commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately \$729 million at year-end 2001.

We are exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes the currently identified claims and litigation will not have a material adverse effect on our results of operations or our financial condition taken as a whole.

Long-term Debt and Notes Payable

At February 2, 2002, \$100 million of notes payable were outstanding representing financing secured by the Target Credit Card Master Trust Series 1996-1 Class A variable funding certificate. This certificate is debt of TRC and is classified in the current portion of long-term debt and notes payable. The average amount of secured and unsecured notes payable outstanding during 2001 was \$658 million at a weighted-average interest rate of 4.4 percent.

In 2001, we issued \$550 million of long-term debt maturing in 2006 at 5.95 percent, \$500 million of long-term debt maturing in 2007 at 5.50 percent, \$750 million of long-term debt maturing in 2008 at 5.40 percent and \$700 million of long-term debt maturing in 2031 at 7.00 percent. The Trust issued \$750 million of floating rate debt secured by credit card receivables, bearing interest at an initial rate of 3.69 percent maturing in 2004. In addition, concurrent with this transaction, on August 22, 2001 we reflected the obligation to holders of the \$800 million in previously sold receivable-backed securities as debt of TRC (discussed in detail under Accounts Receivable and Receivable-backed Securities on page 29). Also during 2001, we repurchased \$144 million of long-term debt with an average remaining life of 7 years and a weighted-average interest rate of 9.2 percent, resulting in an after-tax extraordinary charge of \$6 million (\$.01 per share).

In 2000, we issued \$500 million of long-term debt maturing in 2005 at 7.50 percent, \$600 million of long-term debt maturing in 2010 at 7.50 percent and \$700 million of long-term debt maturing in 2011 at 6.35 percent. We also issued \$200 million of floating-rate notes bearing interest at an initial rate of 6.82 percent maturing in 2002. Also during 2000, we repurchased \$35 million of long-term debt with an average remaining life of 12 years and a weighted-average interest rate of 9.7 percent, resulting in an after-tax extraordinary charge of \$3 million (less than \$.01 per share). In 2000, \$371 million of puttable debt was put to us, resulting in an after-tax extraordinary gain of \$3 million (less than \$.01 per share).

Subsequent to year-end, we issued \$1,000 million of long-term debt maturing in 2012 at 5.88 percent.

At year-end our debt portfolio was as follows:

| (millions) | Long-term Debt and Notes Payable | | February 3, 2001 | |
|--|----------------------------------|---------|------------------|---------|
| | February 2, 2002 Rate* | Balance | Rate* | Balance |
| Notes payable | 1.8% | \$ 100 | 5.8% | \$ 908 |
| Notes and debentures: | | | | |
| Due 2001-2005 | 5.3 | 3,070 | 7.4 | 2,199 |
| Due 2006-2010 | 6.4 | 3,660 | 7.1 | 1,898 |
| Due 2011-2015 | 8.9 | 159 | 8.9 | 174 |
| Due 2016-2020 | 9.7 | 135 | 9.7 | 135 |
| Due 2021-2025 | 8.3 | 616 | 8.3 | 618 |
| Due 2026-2030 | 6.7 | 400 | 6.7 | 403 |
| Due 2031-2037 | 7.0 | 700 | — | — |
| Total notes payable, notes and debentures** | 6.3% | \$8,840 | 7.2% | \$6,335 |
| Capital lease obligations | | 153 | | 156 |
| Less: current portion | | (905) | | (857) |
| Long-term debt and notes payable | | \$8,088 | | \$5,634 |

*Reflects the weighted-average stated interest rate as of year-end.

**The estimated fair value of total notes payable and notes and debentures, using a discounted cash flow analysis based on our incremental interest rates for similar types of financial instruments, was \$9,279 million at February 2, 2002 and \$6,562 million at February 3, 2001.

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are \$892 million in 2002, \$864 million in 2003, \$856 million in 2004, \$500 million in 2005 and \$750 million in 2006. No debt instrument contains provisions requiring acceleration of payment upon a debt rating downgrade.

Derivatives

In the first quarter of 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. The adoption did not have a material impact on our 2001 earnings or financial position.

At February 2, 2002 and February 3, 2001, interest rate swap agreements were outstanding at notional amounts totaling \$1,450 million and \$900 million, respectively. The swaps hedge the fair value of certain debt by effectively converting interest from fixed rate to variable. Also at February 2, 2002, two forward Treasury rate lock agreements were outstanding, each with notional amounts of \$350 million. The rate lock agreements hedge the exposure to variability in future cash flows of forecasted debt transactions. The transaction contemplated by these two agreements occurred on March 4, 2002. The fair value of our outstanding swaps and rate locks is reflected in the financial statements and any "hedge ineffectiveness" is recognized in interest expense. At February 2, 2002 and February 3, 2001, the fair value of our existing swaps is immaterial.

Leases

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, classified in selling, general and administrative expense, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was \$171 million in 2001 and \$168 million in 2000 and 1999. Most of the long-term leases include options to renew, with terms varying from five to thirty years. Certain leases also include options to purchase the property.

Future minimum lease payments required under noncancelable lease agreements existing at February 2, 2002, were:

| Future Minimum Lease Payments | | Operating Leases | Capital Leases |
|---|------------|------------------|----------------|
| | (millions) | | |
| 2002 | | \$ 127 | \$ 25 |
| 2003 | | 116 | 23 |
| 2004 | | 105 | 22 |
| 2005 | | 98 | 21 |
| 2006 | | 90 | 23 |
| After 2006 | | 767 | 138 |
| Total future minimum lease payments | | \$1,303 | \$252 |
| Less: interest* | | (515) | (99) |
| Present value of minimum lease payments | | \$ 788 | \$153** |

*Calculated using the interest rate at inception for each lease (the weighted-average interest rate was 8.9 percent).

**Includes current portion of \$12 million.

Owned and Leased Store Locations

At year-end, owned, leased and "combined" (combination owned/leased) store locations by operating segment were as follows:

| | Owned | Leased | Combined | Total |
|------------------|-------|--------|----------|-------|
| Target | 835 | 92 | 126 | 1,053 |
| Mervyn's | 156 | 61 | 47 | 264 |
| Marshall Field's | 51 | 12 | 1 | 64 |
| Total | 1,042 | 165 | 174 | 1,381 |

Income Taxes

Reconciliation of tax rates is as follows:

| Percent of Earnings Before Income Taxes | 2001 | 2000 | 1999 |
|---|-------|-------|-------|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 3.3 | 3.6 | 3.9 |
| Dividends on ESOP stock | (.1) | (.2) | (.4) |
| Work opportunity tax credits | (.2) | (.2) | (.2) |
| Other | – | .2 | .5 |
| Effective tax rate | 38.0% | 38.4% | 38.8% |

The components of the provision for income taxes were:

| Income Tax Provision: Expense/(Benefit) | 2001 | 2000 | 1999 |
|---|-------|-------|-------|
| (millions) | | | |
| Current: | | | |
| Federal | \$686 | \$675 | \$570 |
| State | 107 | 113 | 106 |
| | 793 | 788 | 676 |
| Deferred: | | | |
| Federal | 43 | (1) | 63 |
| State | 6 | 2 | 12 |
| | 49 | 1 | 75 |
| Total | \$842 | \$789 | \$751 |

The components of the net deferred tax asset/(liability) were:

| Net Deferred Tax Asset/(Liability) | February 2, 2002 | February 3, 2001 |
|---|---------------------|---------------------|
| (millions) | | |
| Gross deferred tax assets: | | |
| Self-insured benefits | \$172 | \$167 |
| Deferred compensation | 160 | 143 |
| Inventory | 138 | 100 |
| Accounts receivable valuation allowance | 99 | 64 |
| Postretirement health care obligation | 41 | 40 |
| Other | 97 | 99 |
| | 707 | 613 |
| Gross deferred tax liabilities: | | |
| Property and equipment | (519) | (460) |
| Pension | (109) | (53) |
| Other | (71) | (43) |
| | (699) | (556) |
| Net | \$ 8 | \$ 57 |

Stock Option Plan

We have a stock option plan for key employees. Options include incentive stock options, non-qualified stock options or a combination of the two. A majority of the options vest annually in equal amounts over a four-year period. These options are cumulatively exercisable and expire no later than ten years after the date of the grant. The non-employee members of our Board of Directors also participate in our stock option plan. Their options become exercisable after one year and have a ten-year term. The typical frequency of stock option grants is once each fiscal year.

Options Outstanding

| (shares in thousands) | Total Outstanding | | Currently Exercisable | |
|-------------------------|-------------------|---------------------------------|-----------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| January 30, 1999 | 31,161 | \$12.40 | 11,369 | \$ 8.25 |
| Granted | 3,811 | 33.82 | | |
| Canceled | (352) | 17.45 | | |
| Exercised | (2,559) | 7.01 | | |
| January 29, 2000 | 32,061 | \$15.32 | 15,717 | \$10.23 |
| Granted | 5,617 | 33.67 | | |
| Canceled | (481) | 25.34 | | |
| Exercised | (4,939) | 9.14 | | |
| February 3, 2001 | 32,258 | \$19.30 | 18,662 | \$12.36 |
| Granted | 4,805 | 40.52 | | |
| Canceled | (437) | 30.41 | | |
| Exercised | (5,311) | 9.42 | | |
| February 2, 2002 | 31,315 | \$24.07 | 17,629 | \$17.04 |

Options Outstanding

| (shares in thousands) | Shares Outstanding at February 2, 2002 | Range of Exercise Price | |
|-----------------------|--|-------------------------|-----------------|
| | | Low | High |
| | 8,354 | \$ 4.98 | -\$ 9.99 |
| | 5,537 | \$10.00 | -\$19.99 |
| | 3,974 | \$20.00 | -\$29.99 |
| | 8,943 | \$30.00 | -\$39.99 |
| | 4,507 | \$40.00 | -\$43.63 |
| Total | 31,315 | \$ 4.98 | -\$43.63 |

As of February 2, 2002, outstanding options had a weighted-average remaining contractual life of 6.9 years. The number of unissued common shares reserved for future grants under the stock option plans was 39,444,821 at February 2, 2002, and 43,817,181 at February 3, 2001.

We apply APB No. 25, "Accounting for Stock Issued to Employees," to account for our stock option plans. Because the exercise price of our employee stock options equals the market price

of the underlying stock on the grant date, no compensation expense related to options is recognized. If we had elected to recognize compensation expense based on the fair value of the options at the grant date as prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," net earnings would have been the pro forma amounts shown below. EPS calculated under SFAS No. 123 would be \$.03, \$.01 and \$.02 lower than reported EPS in 2001, 2000 and 1999, respectively.

Pro Forma Earnings

| (millions) | 2001 | 2000 | 1999 |
|----------------------------|----------------|---------|---------|
| Net earnings — as reported | \$1,368 | \$1,264 | \$1,144 |
| Net earnings — pro forma | \$1,340 | \$1,247 | \$1,132 |

The Black-Scholes method was used to estimate the fair value of the options at grant date based on the following factors:

| | 2001 | 2000 | 1999 |
|---|----------------|---------|---------|
| Dividend yield | .6% | .6% | .6% |
| Volatility | 30% | 30% | 30% |
| Risk-free interest rate | 4.3% | 4.8% | 6.6% |
| Expected life in years | 5.0 | 5.0 | 5.6 |
| Weighted-average fair value at grant date | \$13.09 | \$11.15 | \$12.91 |

Employee Stock Ownership Plan

We sponsor a defined contribution employee benefit plan. Employees who meet certain eligibility requirements can participate by investing up to 80 percent of their compensation. We match 100 percent of each employee's contribution up to 5 percent of respective total compensation. Our contribution to the plan is invested in the ESOP. Through December 1998, ESOP preferred shares (401(k) preferred shares) were allocated to participants. In January 1999, we began providing new common shares to the ESOP to fund the employer match. In January 2000, each 401(k) preferred share was converted into 120 shares of common stock.

Prior to the conversion of all 401(k) preferred shares to common stock, we were required to exchange at fair value each 401(k) preferred share for 120 shares of common stock and cash, if any, upon a participant's termination. The 401(k) preferred shares were classified as shareholders' investment to the extent the preferred shares were permanent equity.

Dividends earned on 401(k) preferred shares held by the ESOP were \$19 million in 1999. Benefits expense was \$97 million in 2001, \$92 million in 2000 and \$78 million in 1999.

Pension and Postretirement Health Care Benefits

We have defined benefit qualified pension plans that cover all employees who meet certain age, length of service and hours worked per year requirements. We also have unfunded non-qualified pension plans for employees who have qualified plan compensation restrictions. Benefits are provided based upon years of service and the employee's compensation. Retired employees also become eligible for certain health care benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost.

In 1999, we adopted a change in the measurement date of our pension and postretirement health care benefits plans from December 31 to October 31. Prior periods have not been restated, as the impact of the change is not material.

Change in Benefit Obligation

| (millions) | Pension Benefits | | | | Postretirement Health Care Benefits | |
|---|------------------|-------|---------------------|------|-------------------------------------|------|
| | Qualified Plans | | Non-qualified Plans | | | |
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Benefit obligation at beginning of measurement period | \$ 863 | \$811 | \$54 | \$51 | \$ 99 | \$94 |
| Service cost | 48 | 45 | 2 | 2 | 2 | 2 |
| Interest cost | 65 | 59 | 4 | 4 | 8 | 7 |
| Actuarial (gain)/loss | 88 | 2 | 9 | -- | 14 | 4 |
| Benefits paid | (50) | (54) | (16) | (3) | (9) | (8) |
| Benefit obligation at end of measurement period | \$1,014 | \$863 | \$53 | \$54 | \$114 | \$99 |

Change in Plan Assets

| | | | | | | |
|--|----------------|---------|------|------|------|------|
| Fair value of plan assets at beginning of measurement period | \$1,020 | \$ 982 | \$ - | \$ - | \$ - | \$ - |
| Actual return on plan assets | (100) | 91 | - | - | - | - |
| Employer contribution | 163 | 1 | 16 | 3 | 9 | 8 |
| Benefits paid | (50) | (54) | (16) | (3) | (9) | (8) |
| Fair value of plan assets at end of measurement period | \$1,033 | \$1,020 | \$ - | \$ - | \$ - | \$ - |

Reconciliation of Prepaid/(Accrued) Cost

| | | | | | | |
|------------------------------------|--------------|-------|---------------|--------|----------------|---------|
| Funded status | \$ 19 | \$157 | \$(53) | \$(54) | \$(114) | \$ (99) |
| Unrecognized actuarial loss/(gain) | 292 | 15 | 21 | 17 | 11 | (3) |
| Unrecognized prior service cost | 1 | 1 | 7 | 8 | 2 | 2 |
| Net prepaid/(accrued) cost | \$312 | \$173 | \$(25) | \$(29) | \$(101) | \$(100) |

Net Pension and Postretirement Health Care Benefits Expense

| (millions) | Pension Benefits | | | Postretirement Health Care Benefits | | |
|--|------------------|------|------|-------------------------------------|------|------|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Service cost benefits earned during the period | \$50 | \$47 | \$44 | \$ 2 | \$2 | \$2 |
| Interest cost on projected benefit obligation | 69 | 63 | 53 | 8 | 7 | 6 |
| Expected return on assets | (89) | (81) | (72) | - | - | - |
| Recognized gains and losses | 1 | 8 | 9 | - | - | - |
| Recognized prior service cost | 1 | 1 | 1 | - | - | - |
| Total | \$32 | \$38 | \$35 | \$10 | \$9 | \$8 |

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

Actuarial Assumptions

| | Pension Benefits | | | Postretirement Health Care Benefits | | |
|--|------------------|--------|--------|-------------------------------------|--------|--------|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Discount rate | 7 1/4% | 7 3/4% | 7 1/2% | 7 1/4% | 7 3/4% | 7 1/2% |
| Expected long-term rate of return on plan assets | 9 | 9 | 9 | n/a | n/a | n/a |
| Average assumed rate of compensation increase | 4 1/4 | 4% | 4 1/2 | n/a | n/a | n/a |

An increase in the cost of covered health care benefits of 6 percent is assumed for 2002. The rate is assumed to remain at 6 percent in the future. The health care cost trend rate assumption has a significant effect on the amounts reported.

A 1 percent change in assumed health care cost trend rates would have the following effects:

| (millions) | 1% Increase | | 1% Decrease | |
|--|---|-----|-------------|-------|
| | Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | | \$- | \$- |
| Effect on the health care component of the postretirement benefit obligation | | \$7 | | \$(6) |

| Business Segment Comparisons (millions) | | 2001 | 2000* | 1999 | 1998 | 1997 | 1996 |
|---|----------|----------|----------|----------|----------|----------|------|
| Revenues | | | | | | | |
| Target | \$32,588 | \$29,278 | \$26,080 | \$23,014 | \$20,298 | \$17,810 | |
| Mervyn's | 4,038 | 4,152 | 4,099 | 4,150 | 4,219 | 4,350 | |
| Marshall Field's | 2,829 | 3,011 | 3,074 | 3,064 | 2,970 | 2,932 | |
| Other | 433 | 462 | 449 | 434 | — | — | |
| Total revenues | \$39,888 | \$36,903 | \$33,702 | \$30,662 | \$27,487 | \$25,092 | |
| Pre-tax segment profit and earnings reconciliation | | | | | | | |
| Target | \$ 2,546 | \$ 2,223 | \$ 2,022 | \$ 1,578 | \$ 1,287 | \$ 1,048 | |
| Mervyn's | 286 | 269 | 205 | 240 | 280 | 272 | |
| Marshall Field's | 133 | 190 | 296 | 279 | 240 | 151 | |
| Total pre-tax segment profit | \$ 2,965 | \$ 2,682 | \$ 2,523 | \$ 2,097 | \$ 1,807 | \$ 1,471 | |
| LIFO provision (expense)/credit | (8) | (4) | 7 | 18 | (6) | (9) | |
| Securitization adjustments: | | | | | | | |
| Unusual items | (67) | — | — | (3) | 45 | — | |
| Interest equivalent | (27) | (50) | (49) | (48) | (33) | (25) | |
| Interest expense | (464) | (425) | (393) | (398) | (416) | (442) | |
| Mainframe outsourcing | — | — | (5) | (42) | — | — | |
| Real estate repositioning | — | — | — | — | — | (134) | |
| Other | (183) | (150) | (147) | (68) | (71) | (78) | |
| Earnings before income taxes and extraordinary items | \$ 2,216 | \$ 2,053 | \$ 1,936 | \$ 1,556 | \$ 1,326 | \$ 783 | |
| Assets | | | | | | | |
| Target | \$18,515 | \$14,348 | \$12,048 | \$10,475 | \$ 9,487 | \$ 8,257 | |
| Mervyn's | 2,379 | 2,270 | 2,248 | 2,339 | 2,281 | 2,658 | |
| Marshall Field's | 2,284 | 2,114 | 2,149 | 2,123 | 2,188 | 2,296 | |
| Other | 976 | 758 | 698 | 729 | 235 | 178 | |
| Total assets | \$24,154 | \$19,490 | \$17,143 | \$15,666 | \$14,191 | \$13,389 | |
| Depreciation and amortization | | | | | | | |
| Target | \$ 784 | \$ 660 | \$ 567 | \$ 496 | \$ 437 | \$ 377 | |
| Mervyn's | 126 | 131 | 138 | 138 | 126 | 151 | |
| Marshall Field's | 135 | 133 | 133 | 135 | 128 | 119 | |
| Other | 34 | 16 | 16 | 11 | 2 | 3 | |
| Total depreciation and amortization | \$ 1,079 | \$ 940 | \$ 854 | \$ 780 | \$ 693 | \$ 650 | |
| Capital expenditures | | | | | | | |
| Target | \$ 2,901 | \$ 2,244 | \$ 1,665 | \$ 1,352 | \$ 1,155 | \$ 1,048 | |
| Mervyn's | 104 | 106 | 108 | 169 | 72 | 79 | |
| Marshall Field's | 125 | 143 | 124 | 127 | 124 | 173 | |
| Other | 33 | 35 | 21 | 9 | 3 | 1 | |
| Total capital expenditures | \$ 3,163 | \$ 2,528 | \$ 1,918 | \$ 1,657 | \$ 1,354 | \$ 1,301 | |
| Segment EBITDA | | | | | | | |
| Target | \$ 3,330 | \$ 2,883 | \$ 2,589 | \$ 2,074 | \$ 1,724 | \$ 1,425 | |
| Mervyn's | 412 | 400 | 343 | 378 | 406 | 423 | |
| Marshall Field's | 268 | 323 | 429 | 414 | 368 | 270 | |
| Total segment EBITDA | \$ 4,010 | \$ 3,606 | \$ 3,361 | \$ 2,866 | \$ 2,498 | \$ 2,118 | |
| Net assets** | | | | | | | |
| Target | \$13,812 | \$10,659 | \$ 8,413 | \$ 7,302 | \$ 6,602 | \$ 5,711 | |
| Mervyn's | 1,868 | 1,928 | 1,908 | 2,017 | 2,019 | 2,268 | |
| Marshall Field's | 1,764 | 1,749 | 1,795 | 1,785 | 1,896 | 1,879 | |
| Other | 561 | 463 | 428 | 514 | 169 | 53 | |
| Total net assets | \$18,005 | \$14,799 | \$12,544 | \$11,618 | \$10,686 | \$ 9,911 | |

Each operating segment's assets and operating results include accounts receivable and receivable-backed securities held by Target Receivables Corporation and Retailers National Bank, as well as related income and expense.

*Consisted of 53 weeks.

**Net assets represent total assets (including publicly held receivable-backed securities) less non-interest bearing current liabilities.

Quarterly Results (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. The table below summarizes results by quarter for 2001 and 2000:

| (millions, except per share data) | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | | Total Year | |
|---|---------------|-------|----------------|-------|---------------|-------|----------------|--------|------------|--------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| Total revenues | \$8,345 | 7,746 | \$8,952 | 8,251 | \$9,354 | 8,582 | \$13,237 | 12,324 | \$39,888 | 36,903 |
| Gross margin (a) | \$2,575 | 2,410 | \$2,706 | 2,530 | \$2,797 | 2,584 | \$ 3,852 | 3,543 | \$11,930 | 11,067 |
| Net earnings before extraordinary items (c) | \$ 254 | 239 | \$ 272 | 257 | \$ 185 | 216 | \$ 663 | 552 | \$ 1,374 | 1,264 |
| Net earnings (b) (c) | \$ 254 | 239 | \$ 271 | 258 | \$ 185 | 215 | \$ 658 | 552 | \$ 1,368 | 1,264 |
| Basic earnings per share (b) (c) (d) | \$.28 | .26 | \$.30 | .28 | \$.20 | .24 | \$.73 | .62 | \$ 1.52 | 1.40 |
| Diluted earnings per share (b) (c) (d) | \$.28 | .26 | \$.30 | .28 | \$.20 | .24 | \$.72 | .61 | \$ 1.50 | 1.38 |
| Dividends declared per share (d) | \$.055 | .050 | \$.055 | .055 | \$.055 | .055 | \$.060 | .055 | \$.225 | .215 |
| Common stock price (e) | | | | | | | | | | |
| High | \$39.25 | 38.59 | \$39.93 | 35.72 | \$39.03 | 31.88 | \$ 44.41 | 37.98 | \$ 44.41 | 38.59 |
| Low | \$33.95 | 27.94 | \$32.74 | 26.22 | \$26.68 | 22.75 | \$ 34.11 | 25.50 | \$ 26.68 | 22.75 |

(a) Gross margin is sales less cost of sales.

(b) In 2001, second and fourth quarter net earnings include extraordinary charges, net of tax, related to the purchase and redemption of debt of \$1 million and \$5 million (less than \$.01 and \$.01 per basic and diluted share), respectively. In 2000, second and third quarter net earnings include extraordinary gains (charges), net of tax, related to the purchase and redemption of debt of \$1 million and \$(1) million (each less than \$.01 per basic and diluted share), respectively.

(c) Third quarter and total year 2001 net earnings before extraordinary items, net earnings and earnings per share include a pre-tax charge of \$67 million (\$.05 per share) that relates to the required adoption of a new accounting standard applicable to securitized accounts receivable (discussed in detail under Accounts Receivable on page 29).

(d) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding and/or rounding caused by the 2000 two-for-one common share split.

(e) Our common stock is listed on the New York Stock Exchange and Pacific Exchange. At March 22, 2002, there were 15,773 registered shareholders and the common stock price was \$43.65 per share.

summary financial and operating data (unaudited)

| (dollars in millions, except per share data) | 2001 | 2000(a) | 1999 | 1998 | 1997 | 1996 |
|---|-----------------|---------|---------|---------|---------|---------|
| Results of operations | | | | | | |
| Total revenues | \$39,888 | 36,903 | 33,702 | 30,662 | 27,487 | 25,092 |
| Net earnings (c) (d) (e) | \$ 1,368 | 1,264 | 1,144 | 935 | 751 | 463 |
| Financial position data | | | | | | |
| Total assets | \$24,154 | 19,490 | 17,143 | 15,666 | 14,191 | 13,389 |
| Long-term debt | \$ 8,088 | 5,634 | 4,521 | 4,452 | 4,425 | 4,808 |
| Per common share data (b) | | | | | | |
| Diluted earnings per share (c) (d) (e) | \$ 1.50 | 1.38 | 1.23 | .99 | .80 | .49 |
| Cash dividend declared | \$.225 | .215 | .200 | .185 | .170 | .157 |
| Other data | | | | | | |
| Weighted average common shares outstanding (b) | 901.5 | 903.5 | 882.6 | 880.0 | 872.2 | 866.5 |
| Diluted average common shares outstanding (b) | 909.8 | 913.0 | 931.3 | 934.6 | 927.3 | 921.8 |
| Capital expenditures | \$ 3,163 | 2,528 | 1,918 | 1,657 | 1,354 | 1,301 |
| Number of stores: | | | | | | |
| Target | 1,053 | 977 | 912 | 851 | 796 | 736 |
| Mervyn's | 264 | 266 | 267 | 268 | 269 | 300 |
| Marshall Field's | 64 | 64 | 64 | 63 | 65 | 65 |
| Total stores | 1,381 | 1,307 | 1,243 | 1,182 | 1,130 | 1,101 |
| Total retail square footage (thousands): | | | | | | |
| Target | 125,203 | 112,939 | 102,945 | 94,553 | 87,158 | 79,360 |
| Mervyn's | 21,425 | 21,555 | 21,635 | 21,729 | 21,810 | 24,518 |
| Marshall Field's | 14,638 | 14,584 | 14,060 | 13,890 | 14,090 | 14,111 |
| Total retail square footage | 161,266 | 149,078 | 138,640 | 130,172 | 123,058 | 117,989 |

(a) Consisted of 53 weeks.

(b) Earnings per share, dividends per share and common shares outstanding reflect our 2000 and 1998 two-for-one common share splits and our 1996 three-for-one common share split.

(c) Extraordinary charges, net of tax, related to the purchase and redemption of debt were \$6 million (\$.01 per share) in 2001, less than \$1 million (less than \$.01 per share) in 2000, \$41 million (\$.04 per share) in 1999, \$27 million (\$.03 per share) in 1998, \$51 million (\$.05 per share) in 1997 and \$11 million (\$.01 per share) in 1996.

(d) 1999 includes a mainframe outsourcing pre-tax charge of \$5 million (less than \$.01 per share). 1998 included a mainframe outsourcing pre-tax charge of \$42 million (\$.03 per share) and the beneficial effect of \$20 million (\$.02 per share) of the favorable outcome of our inventory shortage tax matter. 1996 included a real estate repositioning pre-tax charge of \$134 million (\$.09 per share).

(e) 2001 includes a \$67 million pre-tax charge (\$.05 per share) that relates to the required adoption of a new accounting standard applicable to securitized accounts receivable (discussed in detail under Accounts Receivable on page 29). 1998 included a \$3 million pre-tax net loss (less than \$.01 per share) related to securitization maturity and sale transactions. 1997 included a \$45 million pre-tax gain (\$.03 per share) related to securitization sale transactions.

The Summary Financial and Operating Data should be read in conjunction with the Notes to Consolidated Financial Statements throughout pages 28-36.

report of independent auditors

Board of Directors and Shareholders

Target Corporation

We have audited the accompanying consolidated statements of financial position of Target Corporation and subsidiaries as of February 2, 2002 and February 3, 2001 and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended February 2, 2002. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Target Corporation and subsidiaries at February 2, 2002 and February 3, 2001 and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 2, 2002 in conformity with accounting principles generally accepted in the United States.

Minneapolis, Minnesota

February 27, 2002

Ernst & Young LLP

report of management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with accounting principles generally accepted in the United States and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of four independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to assess whether their quality, integrity and objectivity are sufficient

to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with auditing standards generally accepted in the United States.

Bob Ulrich

Robert J. Ulrich
Chairman of the Board and
Chief Executive Officer
February 27, 2002

Douglas A. Scovanner

Douglas A. Scovanner
Executive Vice President and
Chief Financial Officer

report of audit committee

The Audit Committee met two times during fiscal 2001 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, audit fees and benefit plans. The Committee also met individually with the independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors and the Corporation's annual financial statements were reviewed and approved by the Board of Directors before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 2002, subject to the approval of the shareholders at the annual meeting.

February 27, 2002

directors and management

| Directors | Executive Officers | Other Officers |
|--|--|---|
| Roger A. Enrico Retired Vice Chairman, PepsiCo, Inc. 1, 2, 3 | Stephen W. Sanger Chairman and Chief Executive Officer, General Mills, Inc. 1, 3, 5, 6 | Linda L. Ahlers President, Marshall Field's |
| William W. George Chairman, Medtronic, Inc. 1, 2, 4 | Warren R. Staley Chairman and Chief Executive Officer, Cargill, Inc. 1, 4, 5 | Todd V. Blackwell Senior Vice President, Human Resources |
| Michele J. Hooper Former Chief Executive Officer and President, Voyager Expanded Learning 1, 2, 6 | George W. Tamke Principal, Clayton, Dubilier & Rice 1, 3, 6 | Bart Butzer Executive Vice President, Stores, Target Stores |
| James A. Johnson Vice Chairman, Perseus, LLC 1, 3, 4, 5 | Solomon D. Trujillo Chairman, President and Chief Executive Officer, Graviton, Inc. 1, 3, 4, 5 | Michael Francis Senior Vice President, Marketing |
| Richard M. Kovacevich Chairman and Chief Executive Officer, Wells Fargo & Co. 1, 2, 6 | Robert J. Ulrich Chairman and Chief Executive Officer, Target Corporation and Target Stores 1 1 Executive Committee 2 Audit Committee 3 Compensation Committee 4 Corporate Responsibility Committee 5 Finance Committee 6 Nominating Committee | John D. Griffith Senior Vice President, Property Development |
| Anne M. Mulcahy Chairman and Chief Executive Officer, Xerox Corporation 1, 4, 5 | James T. Hale Executive Vice President, General Counsel and Secretary | James T. Hale Executive Vice President, General Counsel and Secretary |
| | Maureen W. Kyer Executive Vice President, Merchandising, Mervyn's | Richard J. Kuzmich President, Associated Merchandising Corp. |
| | Diane L. Neal President, Mervyn's | Dale Nitschke President, target.direct |
| | Luis A. Padilla Executive Vice President, Merchandising, Marshall Field's | Ronald A. Prill President, Target Financial Services |
| | Douglas A. Scovanner Executive Vice President and Chief Financial Officer | Jack N. Reif Assistant Treasurer |
| | Paul L. Singer Senior Vice President, Technology Services and Chief Information Officer | Sara J. Ross Assistant Treasurer |
| | Gregg W. Steinhafel President, Target Stores | Erica C. Street President, Target Brands, Inc. |
| | Gerald L. Storch Vice Chairman | Jane P. Windmeier Senior Vice President, Finance |
| | Ertugrul Tuzcu Executive Vice President, Store Operations, Marshall Field's | |
| | Robert J. Ulrich Chairman and Chief Executive Officer | |

shareholder information

Annual Meeting

The Annual Meeting of Shareholders is scheduled for May 22, 2002, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

Shareholder Information

Quarterly and annual shareholder information, including the Form 10-Q and Form 10-K Annual Report, which are filed with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain copies of these materials, you may call 612-761-6736, send an email to investorrelations@target.com, or write to: Vice President, Investor Relations (TPN-1448), Target Corporation, 1000 Nicollet Mall, Minneapolis, Minnesota 55403.

Information about Target Corporation is also available on the internet at www.target.com.

Sales Information

Comments regarding the company's sales results are provided periodically throughout the year on a recorded telephone message. You may access this message by calling 612-761-6500.

Direct Stock Purchase/Dividend Reinvestment Plan

EquiServe administers a direct service investment plan that allows interested investors to purchase Target Corporation stock directly, rather than through a broker, and become a registered shareholder of the Company. The program offers many features including dividend reinvestment. For detailed information regarding this program, call EquiServe toll free at 1-888-268-0203 or write to:

The DirectSERVICE Investment Program
c/o EquiServe
P.O. Box 2598
Jersey City, NJ 07303-2598

Transfer Agent, Registrar and Dividend Disbursing Agent

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Trustee, Employee Savings 401(k) and Pension Plans

State Street Bank and Trust Company

Stock Exchange Listings

Trading symbol TGT
New York Stock Exchange and Pacific Stock Exchange

Shareholder Assistance

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, call EquiServe at 1-800-317-4445, access their website at www.equiserve.com, or write to: EquiServe, P.O. Box 2500, Jersey City, NJ 07303.

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TARGET CORPORATION



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